EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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BRITAIN
Producers fail to meet consumer demands
Page 11

World News

Soviet troops open fire in southern republic

Soviet troops appear to be in danger of losing control in the mountain region of Nagorno-Karabakh, where armed gangs of Armenians and Azerbaijanis took to the hills in almost open warfare.

Soldiers opened fire, killing one man and injuring six in the regional capital, Stepanakert. Page 18

HK project

Hong Kong construction projects costing a total of HK$127bn ($16.2bn) by the year 2,009 and including a new airport and container terminal were announced by the colony's Governor in a speech aimed at rebuilding confidence. Page 16

Syrian pilot defects

A Syrian air force MiG-23 fighter aircraft landed in Israel where the army said the pilot had defected and that a second Syrian MiG had landed in Egypt. Page 6

Scandal in Tokyo

A new financial scandal, involving links between politicians and the operators of *pachinko* (pinball) gambling parlours, is threatening to disrupt Japanese political life. Page 6

New Panama law

The Panamanian Government announced the first of a series of emergency measures, partly to cut costs, partly to penalise those involved in last week's coup attempt. Page 3

Grivas appointed PM

Supreme Court President Yannis Grivas was appointed Greece's caretaker Prime Minister to oversee the second national election this year, set for November 5. Page 2

EC faces Gatt

The US challenged in the Gatt the EC's new TV directive which will allow frontier-free broadcasting from next year but reserves a majority of the airtime for works of European origin. Page 4

Ceasefire holds

Syrian-backed Moslems returned to an Arab-led ceasefire committee in Lebanon, a day after they pulled out in protest over the killing of a Moslem army officer in Beirut's Green Line battle zone.

Hungarian credit

W German banks under the leadership of the Deutsche Bank are preparing to grant Hungary a further DM500m ($263m) credit. Page 2

Nobel economist

Norwegian Trygve Haavelmo won the 1989 Nobel prize in Economics for work showing how economic theory can be tested. Page 2

Strike in Lisbon

Lisbon was brought close to a standstill for a second day as transport workers continued a 48-hour strike in pursuit of higher wages. Page 2

Galtieri freed

Former Argentine dictator Leopoldo Galtieri, jailed for mishandling the 1982 Falklands war against Britain, was released after being pardoned by President Carlos Menem.

Uranium arrest

A Briton was arrested for trying to sell 2.5kg of radioactive uranium to a nuclear research centre in Athens.

Business Summary

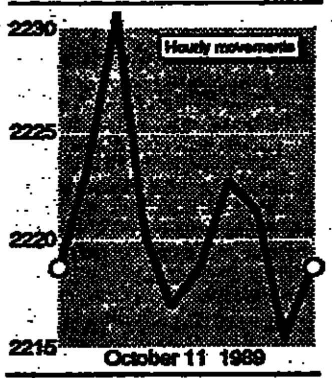
Pechiney allowed to buy cheap French power

PECHINEY, leading aluminium producer, won the go-ahead from the European Commission to buy cheap surplus power from the French electricity board.

The French state-controlled metals group will be able to proceed with plans to build what will be its largest plant at the northern port of Dunkerque capable of 200,000 tonne per year of aluminium output. Page 2

FT-SE Index: the UK stock market's collective difficulty in comprehending the events of the past week was reflected

FT-SE 100 Index



by the day's movements. After rising nearly 14 FT-SE points the market dipped to end the day at 2,218.8, Tuesday's closing level. Markets, Page 29

BANCA Nazionale del Lavoro, Italian bank at the centre of a scandal over $1.85bn of unauthorised Iraqi export credits, last night received board approval for plans to make three separate capital injections that will total L2,350bn ($1.7bn). Page 16

VOLVO share price jumped amid mounting speculation that the Swedish car and truck maker is engaged in negotiations with Renault, the French state-owned car and truck maker. Page 17; Lex, Page 16

CHASE Manhattan, third largest US bank, reported an after-tax loss of $1.11bn or $12.49 a share for the third quarter after taking $1.25bn worth of after-tax charges mainly related to the bank's Third World loan portfolio. Page 20

EUROPEAN merger policy: industry ministers removed some of the smaller obstacles in the way of common merger policy but failed to settle the minimum size of merger in which the Commission may intervene. Page 2

AIR New Zealand shares offered to private investors in its flotation have been over subscribed by almost 90 per cent. Page 21

KAUFHOF, big West German retail group, is expanding further outside its traditional department store activities by taking a 50 per cent stake in Vobis, an Aachen-based computer, sales, assembly and maintenance company. Page 21

PROCTER and Gamble, US consumer products group, announced that John Smale, chairman and chief executive, plans to relinquish those posts from January 2. Page 21

INDUSTRIAL Equity: further snags over funding have again delayed the A$1.9bn ($1.5bn) management-led bid for the Australian arm of Sir Ron Brierley's New Zealand-based business empire. Page 21

SVENSKA Cellulosa, Sweden's second largest forest products group, reported a 7 per cent increase in profits to SKr1.81bn ($279m) for the first eight months of 1989. Page 18

PARIBAS, French merchant banking group, saw its share price rise strongly in early trading, but senior Paris bankers dismissed speculation it might be the target of a takeover attempt. Page 18

MARKETS

STERLING
New York lunchtime: $1.5465
London: $1.5445 (1.558)
DM2.96 (2.955)
FFr10.02 (10.015)
SFr2.59 (2.5825)
Y223.50 (224.25)
£ index 88.9 (89.0)

GOLD
New York: Comex Dec $368.2 (365.2)
London: $361.5 (362)

N SEA OIL (Argus)
Brent 15-day Nov $18.75 (+0.35)

Chief price changes yesterday: Page 17

DOLLAR
New York lunchtime: DM1.91405
FFr6.48
SFr1.679
Y144.70
London: DM1.916 (1.896)
FFr6.4875 (6.4275)
SFr1.6775 (1.657)
Y144.75 (143.95)
$ index 71.3 (70.5)
Tokyo close: Y143.90

US LUNCHTIME RATES
Fed Funds $8\frac{7}{8}$%
3-mo Treasury Bills: yield: 7.92%
Long Bond: 101
yield: 8.03%

STOCK INDICES
FT-SE 100: 2,218.8 (same)
FT Ordinary: 1,797.3 (+0.6)
FT-A All Share: 1,118.61 (−0.2%)
FT-A long gilt yield index high coupon: 9.87 (9.83)
New York closing DJ Ind. Av. 2,773.36 (−11.97)
Tokyo: Nikkei 35,240.07 (−136.28)

LONDON MONEY
3-month interbank: closing $15\frac{5}{16}$% ($15\frac{1}{16}$)

MARKET REPORTS: CURRENCIES, Page 38; BONDS, Pages 22, 23; COMMODITIES, Page 28; EQUITIES, Pages 29 (London), 40 (World)

De Klerk calls on clerics to back reforms

By Patti Waldmeir in Pretoria

PRESIDENT F.W. de Klerk of South Africa yesterday held talks with three of the country's leading anti-apartheid clerics in a meeting which made clear the wide gap remaining between the two sides.

After the three-hour talks, Mr de Klerk was sharply critical of the churchmen – Archbishop Desmond Tutu, Anglican Archbishop of Cape Town; Rev Allan Boesak, president of the World Alliance of Reformed Churches; and Rev Frank Chikane, general secretary of the South African Council of Churches.

He complained that they failed to recognise the importance of reform measures taken by Pretoria, an apparent reference to the Government's decision on Tuesday to release all prominent long-term political prisoners with the exception of Mr Nelson Mandela, leader of the African National Congress (ANC).

The clerics, for their part, presented a list of six demands which they said the Government should meet immediately to facilitate negotiations on the country's future. These included lifting the country's three-year-old state of emergency, the ban on political organisations and restrictions on individuals' political activities.

The three clergymen criticised Mr de Klerk's response to their demands as vague and said they would call for tougher sanctions against South Africa. One of their number, Mr Chikane, is to attend the Commonwealth summit in Kuala Lumpur next week at which further Commonwealth sanctions against South Africa may be discussed.

Mr de Klerk called on the men, who have been prominent in organising the recent anti-apartheid defiance campaign, to re-evaluate their activities. "The time has come for them to change their attitude from a negative to a positive one, to assist in creating a climate conducive to negotiation.

"We are really no longer arguing about the fact that all South Africans must have a vote, that all South Africans must be involved in all decisions affecting their lives. What we must now start talking about is how do we structure that," he said after the meeting, held in Pretoria.

He did not say when the eight prisoners whose release was announced yesterday would actually leave jail.

Editorial comment, Page 14; De Klerk takes a risk, Page 15

A local newspaper announces the release of Walter Sisulu

Dollar rises strongly despite intervention by central banks

By Patrick Harverson and Philip Stephens in London and Janet Bush in New York

THE US dollar rose strongly on foreign exchange markets yesterday despite concerted intervention by world central banks to stem its rise. The dollar was bought heavily in the expectation that US interest rates would remain high.

The dollar's rise took the pressure off sterling, still unsteady after two days of sharp falls. Analysts said that the market was waiting to see what Mr Nigel Lawson, the British Chancellor of the Exchequer, had to say about exchange rate policy in his speech to the Conservative Party conference in Blackpool today. The speech is being billed as one of the most important of his political career.

Sterling, steadied by several rounds of intervention by the Bank of England, closed ½ pfennig higher at DM2.96, but fell 1.27 cents against the firm dollar to $1.5445.

US markets have become increasingly convinced that the authorities will not ease monetary policy. Remarks by Mr Alan Greenspan, chairman of the US Federal Reserve, in Moscow on Tuesday have been widely interpreted as criticism of the current Group of Seven policy of driving the dollar lower through a combination of open market dollar sales and increases in interest rates.

Yesterday's unexpected decision by the Bank of Japan to raise the discount rate by ½ point also failed to dampen investors' enthusiasm for the dollar. Analysts said the half-point rise had been discounted by the currency markets.

Currency dealers said that the dollar's surge despite news of the rise in Japanese rates was extremely worrying for the non-US G7 members. Unless the Federal Reserve eases monetary policy, the G7 has left itself with little ammunition to force the dollar lower.

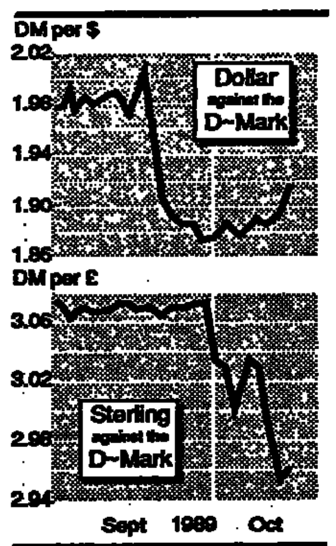
In late New York trading, the dollar was quoted somewhat below its highs at Y144.55 and DM1.9165, but well above earlier lows of Y142.60 and DM1.8960.

Mr Lawson will today try to reassure ministerial colleagues and volatile financial markets that his policies to curb inflation and narrow Britain's huge trade deficit will restore stability to the economy.

As the pound stabilised on foreign exchange markets yesterday, the Chancellor's colleagues said he was preparing a speech to the Conservative Party conference which would offer "hope and reassurance" about the economic outlook.

Mr Lawson is prepared to acknowledge that the rise in interest rates to 15 per cent has inflicted considerable hardship but he will emphasise that the "pain" will be temporary and that there are already clear signs that the economy is responding.

Conservative conference, Page 7; Lex, Page 16; Currencies, Page 38; World Stock Markets, Pages 37-40



Speculation mounts over rise in Japan's official discount rate

By Ian Rodger in Tokyo

SPECULATION mounted in Tokyo that a further rise in Japan's official discount rate (ODR) may be necessary because yesterday's surprise 0.5 per cent increase to 3.75 per cent failed to weaken the dollar in foreign exchange markets.

Japanese government and industry leaders fear that a further increase could seriously dampen economic activity. They are hoping the US Federal Reserve will ease US interest rates to drive down the value of the dollar. "The ball is now very much in their court," a Japanese Finance Ministry official said yesterday.

A private sector economist added that if Japan was forced to raise its discount rate again, that would put in jeopardy the September 23 agreement of the seven leading industrial countries on exchange rate co-ordination.

For the first time in memory, the Bank of Japan took dealers completely by surprise, announcing and implementing the 0.5 per cent rise shortly after noon Tokyo time while the foreign exchange market was closed for lunch.

Normally, such a move would be widely anticipated as a result of veiled official statements and speculative articles in the financial press, a process which has frequently drawn criticism from foreign governments and financial institutions.

Economists in Tokyo said the BoJ was forced to move quickly after statements in Moscow by Mr Alan Greenspan, Chairman of the US Federal Reserve Board, provoked a rise in the dollar to Y144.45 in New York on Tuesday. At that level, the rise in the cost of imported raw materials would have a significant effect on Japan's inflation rate, they said.

Japanese officials acknowledged the impact of Mr Greenspan's remarks – to the effect that attempts to hold interest rates at unsustainably low levels have been shown to accelerate inflation – on the foreign exchange markets. However, they wondered if the interpretation put on them, that the Fed would not reduce US interest rates, was accurate.

Mr Satoshi Sumita, governor of the Bank of Japan, conceded that the discount rate increase was aimed largely at strengthening the yen against the dollar.

As the day progressed, however, it became apparent that the exchange rate was not responding. In afternoon trading in Tokyo, the dollar closed at Y143.90, only Y0.13 lower than before the announcement.

Government spokesmen then shifted the thrust of explanations to the need to bring ODR into line with market rates and to concerns that the economy was overheating.

Mr Sumita said signs of labour shortages had become more pronounced in recent months because of high personal spending and robust corporate capital spending. Also, money supply growth, with M2 plus certificates of deposits running between 9 and 10 per cent, was higher than warranted.

Private sector economists said the ODR increase would have no dampening effect because it merely brought the central bank rate into line with market rates.

"As long as Japan has a large trade surplus, its basic stance cannot change. It must be easy. I think today's action is a short-term deviation," Mr Teizo Taya of Daiwa Securities Research Institute said.

Mr Taya said the Japanese authorities were extremely worried about the weak exchange rate. They fear it will stimulate exports and slow the process of reducing Japan's large trade and current account surpluses.

Steel agreement, Page 16

US stalemate on budget may lead to $16bn cutbacks

By Peter Riddell, US Editor, in Washington

AUTOMATIC cuts in US federal spending of about $16bn are almost certain to be triggered on Monday, according to Congressional leaders, since legislation to reduce the budget deficit is unlikely to be passed in time.

Senator George Mitchell, the Democratic majority leader, said yesterday the chances were "now extremely remote" of meeting this weekend's deadline under the Gramm-Rudman deficit reduction law, because of a dispute over reducing capital gains tax.

Unless there is Congressional agreement by October 14, cuts in government programmes across the board, known as sequestration, are automatically triggered to reduce the deficit below the statutory figure. The target is no more than $110bn for fiscal year 1990, which began on October 1. The cuts apply to defence and domestic programmes, excluding non-discretionary social security programmes.

Last minute talks were under way yesterday involving Congressional leaders and Mr Richard Darman, the Budget Director. Even if a deal is struck a bill may not be approved in time to prevent at least temporary cuts.

The immediate impact of sequestration could be limited since there is a general expectation that some form of budgetary package will be agreed within a few days or weeks and the cuts will be reversed. But this is unlikely to do more than paper over underlying problems. A fierce debate will then occur over a bill needed by the end of this month to raise the Federal ceiling on what it can borrow. Some Congressmen have talked about allowing the US Government to go into default for a short time to focus attention on the deficit issue.

Bitter arguments between the Democratic leadership in Congress and the Republican White House have also seriously jeopardised the chances of bipartisan agreement on the even more difficult task of reducing the deficit in fiscal 1991.

The spirit of co-operation between the executive and the legislature which led to agreement in principle in April on the 1990 budget has now disappeared. Mr Mitchell has accused the White House of being intent on "jeopardising" current discussions by insisting that capital gains tax reduction be included in the deficit reduction bill.

Democratic leaders have offered to strip what are known as "extraneous" provisions from this bill in return for a promise to the Republicans to hold a separate vote on capital gains later. This has so far been resisted by the White House.

There is disagreement among party leaders in Congress about how to organise a separate vote without putting one side or another at a tactical disadvantage. This turns on procedural questions of when 60 votes (out of 100 in the Senate) rather than a simple 51 vote majority are required since the supporters of a capital gains tax cut are so far just short of the higher figure.

Honecker under heavy pressure from party leaders

By Leslie Colitt in Berlin

EAST GERMANY'S hardline Communist leader, Mr Erich Honecker, last night came under pressure from senior members of his own party who warned that the street protests of recent days might spread to large factories.

A surprise announcement yesterday that Mr Honecker had postponed, indefinitely and without explanation, a trip to Denmark prompted intense speculation in West Germany and elsewhere that the 77-year-old leader was about to resign. However, East European diplomats in East Berlin believed him to be firmly in control, at least for the time being.

A statement issued after a session of the ruling politburo mixed an offer of "open discussion" on the future of the country with stern warnings to the opposition and street protesters. It said the party would not be "blackmailed" by people "steered by imperialists in the West." It added that the party would shortly spell out its proposals for a national debate.

East European diplomats said earlier that Mr Honecker had been warned by members of his central committee of a tense situation on the country's shop-floors, with the possibility of strikes. The 163-strong central committee members had, in an unusual move, been summoned to the Politburo session which began on Tuesday and unexpectedly went into a second day.

Mr Honecker was reportedly asked by senior party colleagues to produce by the end of the week a "report" on the mood of the country, wracked in the past few weeks by a mass exodus of asylum-seekers to the West and huge demonstrations.

The mood of expectancy was heightened by statements from Mr Kurt Hager, the East German ideology chief, who appeared to acknowledge for the first time that the country was in need of some liberalisation.

Mr Hager admitted, in comments to the Soviet news agency Novosti, that the flight to the West of 50,000 mainly young people raised questions about the quality of life.

Communist party sources told the Associated Press that Mr Egon Krenz, a politburo member often tipped to succeed Mr Honecker, was responsible for ordering police restraint during Monday's pro-democracy demonstrations.

CONTENTS

Panama's next coup will be a less gentlemanly affair

The purge taking place in the Panamanian Defence Forces appears to be unprecedented in its scope and violence as General Manuel Antonio Noriega (left) seeks to re-establish control. Page 3

EC fails to clear main obstacles to common merger policy

By Lucy Kellaway in Brussels

EUROPEAN INDUSTRY ministers have removed some of the smaller obstacles in the way of a common merger policy, after lengthy negotiations that ended early yesterday. But they have failed to settle the central issue: the minimum size of merger in which the Commission may intervene.

There was broad agreement that merging companies with worldwide turnover of more than Ecu5bn (£3.5bn) should be subjected to Community scrutiny, although almost no progress was made on mergers that fall between the Ecu2bn and Ecu5bn bands.

Fundamental disagreement remains between Britain, which is only prepared to countenance Commission interference on medium sized mergers at the invitation of the member state, and the smaller countries without developed monopoly authorities of their own, which would like greater Brussels involvement.

An equally serious sticking point concerns the review mechanism. Most countries want the Community to re-examine the threshold after four years, with a view to reducing it to Ecu2bn on a qualified majority vote. However, the British are not prepared to make any commitment towards lowering the threshold, and are insisting that any decision should be unanimous.

Community ambassadors are now faced with the difficult task of producing a fresh compromise over the next few weeks if the policy is going to be agreed before the French presidency expires at the end of the year. Sir Leon Brittan, the Competition Commissioner, warned that "a considerable amount of give and take would be needed if we are to reach our goal."

However, he said that the decisions taken at the meeting represented "a breakthrough of major proportions."

Member states finally agreed that the Commission should only have power to bless or block a merger on purely competitive grounds.

The final provision will make some mention of economic and technical progress, although it will also make clear that such progress must be in the interest of the consumer, and must not get in the way of free competition.

The French had initially asked for other considerations to be taken into account, which would have allowed the creation of "Euro-champions", but were apparently prepared to give ground in the interests of obtaining an overall agreement as quickly as possible.

Considerable progress was also made on an unpopular West German request that national authorities should have the power to block agreements which Brussels has already approved.

A compromise was agreed that would allow a merger to be re-examined at home if the Commission agreed that a particular local market was threatened.

The compromise answers both the UK concern that the principle of one-stop controls should not be violated, and the West German reluctance to loose sovereignty altogether on mergers of over Ecu5bn.

A final area of broad agreement concerns the reciprocity clause, a notion opposed by more or less everybody except the French. The proposed version of the clause was further neutralised at the meeting, so as to grant the Commission no effective involvement in third countries.

Dr Haavelmo: "I don't like this type of prize."

Economics prize for Norwegian

By John Burton in Stockholm

WORK IN developing econometrics, which tests economic theories using mathematical and statistical models, has won a Nobel Prize for Professor Trygve Haavelmo, a 77-year-old Norwegian.

His initial reaction was one of irritation. After being informed of the award, he disconnected his telephone, jumped into his car and disappeared into the countryside.

"I do not like this type of prize," was his only public comment.

The Royal Swedish Academy of Sciences specifically cited "his clarification of the probability theory foundations of econometrics and his analyses of simultaneous economic structures."

Dr Haavelmo has been a professor of economics at Oslo University since 1948. In his doctoral dissertation at Harvard University in 1941 and in subsequent studies, he showed how economic theories can be formulated in probabilistic terms.

This solves two problems that had defeated attempts to test economic theories empirically. One was that the theories never conformed fully with available data, the other was that economists can never carry out controlled experiments.

This made it difficult to determine what among a multitude of different actions caused a specific market outcome since the various possible causes had mutually interacting effects. But Dr Haavelmo demonstrated that mathematical statistical methods could be applied to draw conclusions from random samples of data about underlying economic relations if the probability theory was used.

The Academy said that his "doctoral thesis had a swift and path-breaking influence on the development of econometrics" attracting the attention of prominent economists, including several previous Nobel winners, because it provided a common conceptual system for formulating, analysing and solving econometric problems.

The approach developed by Dr Haavelmo has been chiefly applied to investment theory and economic development theory.

Fledgling reformers try out their wings

Leslie Colitt reports on the East German opposition group's awkward dilemma

THE 50,000 Leipzigers who surged through the streets on Monday in the largest demonstration seen in East Germany since 1953 have presented the fledgling opposition movement with a fateful decision.

The opposition can attempt to channel the spontaneous upheaval into a powerful mass-based movement similar to Solidarity in Poland in 1980. Or it can wait for the rise of reform-minded officials in the Socialist Unity (Communist) Party who would set the pace of reform, but in the process risk losing all influence over the angry young demonstrators who have shown remarkable self-restraint.

The dilemma is a classic one: whether to risk conflict, chaos and an unknown outcome by toppling the dictator, or hope he will see reason and make concessions.

Ordinary citizens in Leipzig on Monday heeded the calls of "join us" and poured into the streets to join the young demonstrators. Motorists and underground drivers honked horns and flashed headlamps in support of the young people who lit candles in front of Gethsemane Church in East Berlin. But they waited in vain for a signal for action from the opposition and instead were told to remain calm.

The East German opposition consists of more than half a dozen groups, all founded in recent weeks, of varying size and shade of political outlook. They range from Christian democracy to Marxist reform, social democracy and the Greens.

"We do not want a centralised structure with 30 people dominating everything" Mr Reinar Schult, a co-founder of New Forum, the largest opposition group, said in the kitchen of the cramped flat he shares in the working class district of Prenzlauer Berg.

The organised opposition, as opposed to the young protesters in the streets, consists largely of intellectuals – scientists, artists, pastors and a sprinkling of workers.

Members regard its diversity as a strength in the face of the monolithic party. The groups have agreed to co-operate in nominating candidates for next year's election but otherwise act like sects, regarding each other suspiciously.

The founders of the dissident groups are intelligent, appealing and gentle *bürger* who seldom raise their voices, the antithesis of those who normally influence the masses.

This remoteness from ordinary East Germans clearly emerged last Saturday evening at a spirited panel discussion on the future of East Germany by prominent opposition members. It was attended by several thousand supporters who packed the Church of the Redeemer in East Berlin.

A young man in the audience asked why it was not proper to smash windows in protest. He was invited on to the stage where he haltingly introduced himself as a "boiler cleaner" and accused the panel of being "*burgerlich* (bourgeois), all of you."

"The guy working at KWO (a large East Berlin factory) can't understand you," he said in heavy Berlin dialect. "Do you people get into the factories or are you doing this for yourselves?" Rainer Eppelmann, the brawny and popular dissident pastor of the Good Samaritan Church broke the painful silence that followed. He said that together with the workers "we will really change things in this country". One opposition activist suggested privately that the young worker might, in fact, have been infiltrated by the authorities to embarrass the opposition. It was difficult for him to believe that he might also have been genuine.

> Unlike the wave of Polish strikes in the summer of 1980, the demonstrations by angry young East Germans had neither leaders nor militant workers behind them

The contrast between the amorphous East German opposition and Solidarity, which survived suppression and near oblivion to rise to power in Poland, could not be greater.

New Forum, with 12,000 members, demands democratic elections, an independent judiciary and all the other attributes of a constitutional democracy. In reasoned language it urges the leadership under Mr Erich Honecker to open a dialogue with the population.

But this is a far cry from the 21 concrete demands raised by the strikers (and their advisers) in the Lenin Shipyard in Gdansk.

Unlike the wave of Polish strikes in the summer of 1980, the demonstrations by angry young people in East Germany had neither leaders nor militant workers behind them. In more than one way they resembled the disastrous student revolts in Poland in 1968 which were ignored by workers.

"We are leaderless and scared," one East Berlin demonstrator in his early twenties said after hundreds of young people were clubbed by police and security forces in East Berlin last weekend.

The demonstrators who surged through East Berlin's Schönhauser Allee and the Platz der Republik in Leipzig had no advisers schooled in the techniques of struggle and conspiracy like Poland's legendary KOR, the Organisation for the Defence of Workers, which forged the crucial link between intellectuals and workers in 1976.

Instead of strategists like Adam Michnik and Jacek Kuron, converts from the Polish Communist Party who knew the "enemy" from within, not to mention a Lech Walesa, New Forum has produced Ms Bärbel Bohley, an engaging, mild-mannered painter whose flat in the Fehrbelliner Strasse resembles a salon for artists and literati. Expelled from East Germany last year for several months after protesting in an official demonstration in East Berlin, the slight, 56-year-old Ms Bohley has risen to take the place of other prominent dissidents.

Unable to join forces with the young people or workers, the fractious new opposition groups in East Berlin looked on as the Evangelical Protestant Church in Leipzig and Dresden opened talks with the party and Government on the "possibility" of reforms. They were signalled on Monday by party and city officials in the two provincial centres where both demonstrators and the security forces refrained from violence for the first time.

It was unclear whether the leadership was prepared to make real concessions but many demonstrators and opposition members had deep suspicions. They were afraid of another "foul compromise" between the Church and the party similar to 1987, when conservative church leaders failed to support young people who had openly criticised the system.

"The opposition must be represented at the talks or there can be no understanding," Ms Bohley said this week.

The Church, which for years held a protective hand over the unorganised opposition, has a long Lutheran tradition of circumspection in its dealings with temporal power. In East Germany, this was the price for remaining relatively independent.

New Forum was the first opposition group to leave the protection of the Church last month and stand on its own. As such its founders face possible expulsion to the West.

Ms Bohley and other prominent figures in the opposition, however, are determined to avoid expulsion at all cost. They have learned one lesson from the Polish opposition and from Mr Vaclav Havel, the Czechoslovak playwright and spokesman of Charter 77, the civil rights movement. For an opposition leader to gain credibility he (or she) must be prepared to choose prison over deportation when given the inevitable choice by the authorities.

Commission gives Pechiney go-ahead to buy cheap power

By William Dawkins in Paris

PECHINEY, the leading aluminium producer, yesterday won the go-ahead from the European Commission to buy cheap surplus power from the French electricity board, subject to tough conditions.

The French state controlled metals group was last night understood to be ready reluctantly to accept the long-awaited ruling. This means it can now proceed with plans to build what will be its largest plant, to be run jointly with Electricité de France (EDF).

The Fr4.5bn scheme, already in its early stages, will create a 200,000 tonne per year aluminium smelter at the northern French port of Dunkerque, powered with cheap electricity from a nearby EDF power station.

It will provide 650 direct jobs, plus indirect employment for three times that number, claim Pechiney officials.

Even taking into account closures elsewhere in Pechiney, this will be a big rise in capacity for the world's third largest aluminium producer.

The Commission decision paves the way for EDF to complete similar deals with big industrial electricity users, a crucial element in its efforts to find a market for a surplus of electricity generating capacity created by an over-ambitious nuclear power station building programme.

Mr Jean Gandois, Pechiney's chairman, had threatened to scrap the scheme if the Commission did not soon conclude a nearly year-long inquiry into whether the price it was paying for EDF power constituted illicit state aid.

Sir Leon Brittan, the Competition Commissioner, is proposing to let EDF sell electricity to Pechiney at cost for the first few years, on condition that the price then rises 10 per cent annually for the three years from 1997 to 1999. His 16 fellow Commissioners confirmed that decision without controversy at their weekly meeting, said EC officials.

The original version of the EDF-Pechiney deal would have guaranteed the aluminium producer cheap electricity for 25 years.

The Commission chose 1997 as the date when it estimates France's electricity consumption should have risen to mop up the present surplus, currently representing 5 to 8 per cent of capacity, according to EDF officials.

Another DM500m credit for Hungary

By David Marsh in Bonn

WEST GERMAN banks under the leadership of the Deutsche Bank are preparing to grant Hungary a further DM500m (£170m) credit, in addition to a similar credit finalised earlier this month.

News of the loan – the latest sign of support from West Germany for Hungary's economic reforms – surfaced yesterday as Mr Tamas Beck, the Hungarian Trade Minister, held talks in Bonn with Mr Helmut Haussmann, Bonn's Economics Minister.

The West German Government confirmed yesterday that it would guarantee the new credit, in addition to DM1bn of guaranteed loans already made in 1987. The previous DM500m deal, arranged by the Bayerische Landesbank and the Landesbank Stuttgart, was also guaranteed by Bonn.

Mr Haussmann yesterday held out general support for Hungary's economic restructuring, but stressed the importance of Budapest itself coming up with moves to facilitate investment in Hungary by foreign companies.

Mr Beck underlined his country's interest in developing links with the European Community. He warned of "catastrophic" consequences for Hungary if Austria were to join the EC in the mid-1990s without closer association for Budapest.

West Germany is expressing optimism about expanding economic ties. The number of joint ventures rose by 80 to roughly 130 in the first half of this year. Imports from Hungary rose 23 per cent to DM1.4bn in the first seven months while exports to Budapest increased by 31 per cent to DM2bn.

Hungary is making clear it expects speedy liberalisation of trade relations with the EC following signature of its trade agreement between the Community last month.

The new West German bank credit comes in addition to Ecu600m (£416m) of multilateral funds for Hungary and Poland agreed at the seven-nation economic summit in Paris in July. European finance ministers also agreed this week that funds from the European Investment Bank could be put towards infrastructure projects in Poland and Hungary.

Lisbon at a halt

Lisbon was brought close to a standstill for a second day yesterday as transport workers continued a 48-hour strike in pursuit of higher wages, writes Patrick Blum in Athens. The unions are now threatening to hold a week-long strike unless their demands for wages to be brought into line with the inflation rate (now at over 13 per cent) are met.

Giessen struggles to contain the flood

By Haig Simonian

IN A country with almost 1.9m people out of work, it is hard for most West Germans to understand the scene outside the reception centre at Giessen, the first home for the current wave of official emigrants from the German Democratic Republic seeking a new life in the West.

It is not that the camp is lacking either warmth (insofar as that is possible in an institution set up in 1946 and where most newcomers stay less than three days) or efficiency. Despite this year's unprecedented flood of arrivals, Giessen's bureaucracy has coped, processing some 400-500 newcomers a day and finding a new home in West Germany for the roughly 50 per cent of those who have nowhere to go.

On one side of the barrier, the camp is alive with children. On a sunny day, most are playing in the courtyard, or standing huddled in groups with their parents, who are furtively exchanging information with others about their arrival or prospects. Judging by the looks on many faces, the newcomers still seem to be getting to grips with the fact that there is no need to keep their voices down or to throw an occasional glance over their shoulders in case someone is listening.

Such habits die hard among Giessen's residents, the great majority of whom are "official" emigrants, who have had to wait for up to five years in the GDR before being allowed to leave, despite this year's rise in official emigration to an estimated record of around 100,000.

The pain of waiting, during which many have lost their jobs, or at least been demoted and disgraced, helps to explain the somewhat mixed feelings some new arrivals have towards the current wave of East German refugees from Prague and Warsaw, let alone the steady stream across the "green" border between Hungary and Austria.

For one newly-arrived family of five from Leipzig, the "unofficial" hordes are a mixed blessing. After sharing one small room, crammed with three bunk beds, a wardrobe, sink and assorted possessions, husband, wife and three young children all feel marooned, despite their success in leaving the East after a four-year struggle.

The family, which does not want to be named, is still waiting for accommodation in Bavaria, where the husband hopes to take up his trade as a car mechanic. But, for the time-being, they are stalled in Giessen until suitable accommodation becomes unavailable.

"How do we know these people are not taking the space that should be for us, who had a war of nerves for years," says the distraught mother, choking on her barely-restrained anger and tears. "We could have gone to Prague, too."

While such private dramas are probably being played out behind many of the doors on either side of the camp's drab but spotless corridors, outside, on the other side of the main gate, the scene is more like that of a Middle-East bazaar.

Every tree, bush, shrub and post within sight is covered in stickers. All are offering jobs.

Alan Harper

A refugee studies one of the job advertisements which festoon the Giessen camp

Electricians, machinists, telephone engineers and mechanics are in demand from every corner of West Germany. But the offers are not limited to technical trades. Bakers, butchers, carpenters and building workers can all find work tomorrow. And, just inside the gate, both the local newspaper and the Giessen employment office have produced thick tabloid supplements crammed with offers of work.

Some employers prefer a more direct approach. On the embankment above the camp, which is in walking distance of the town's main station, Alexander and Lutz Neumeyer are lolling against their green Volkswagen van.

This is the two brothers' third visit to Giessen. They are looking for machinists to work for their family company, which already employs about 500 in three factories near Aschaffenburg, at the north-western tip of Bavaria. So far, they have found six new recruits from the East, but they would love to have more.

Some jobs provide accommodation as well, helping the throughput at the camp, which remains West Germany's only offical reception centre for emigrants from the GDR, despite the large number of temporary settlements set up in recent weeks to house the unofficial stream.

In the past, finding a home for the newcomers was been one of the lesser problems, says Mr Heinz Doerr, the camp's administrator. For, with most official emigrants having to wait years for their visas, there is plenty of time to prepare for their new life and activate any contacts or family links in the West.

But this year, the flow has become a torrent, with numbers up to 73,000 by early October from a record 27,581 in all of 1988. The increase has stretched resources, particularly as the proportion of those with a fixed address to go to has sunk to around 50 per cent of the total from 80 per cent in the past, according to Mr Manfred Kersten, an official for the state government of Hesse, which administers the camp.

The surge has also stretched financial resources. Hesse, which is the third most attractive destination for the new arrivals, after economically-booming Bavaria and Baden-Württemberg, foots the entire bill for the facility. Last year, it allocated around DM8m (£2.7m) in subsidies for Giessen. This year, it has already spent that much on transport for those leaving the camp.

Judge to lead Greece until poll

By Kerin Hope in Athens

A SENIOR Greek judge, Mr Yiannis Grivas, was appointed Prime Minister yesterday to head a caretaker government that will oversee the general election on November 5, the second to be held in five months.

Mr Grivas, who is 66 and president of the Supreme Court, was the candidate favoured by the conservative New Democracy party, which ruled in an unprecedented coalition with the Communist-led Alliance after failing to win an overall majority in the election held last June.

President Christos Sartzetakis chose Mr Grivas over two other Supreme Court jurists after joint consultations with political party leaders. A new cabinet, with non-political personalities in key positions, is to be sworn in today. In the past, such "service" administrations have included judges, career diplomats and leading university professors.

According to the constitution, an interim Government should be formed of prominent people acceptable to all political parties. But such personalities are hard to find in Greece's highly polarised public life.

Mr Grivas came to prominence as one of the judges in the trials of former military junta members in 1975.

Last month, he was appointed president of two special courts set up after Parliament voted to send Mr Andreas Papandreou, the former Socialist Prime Minister, for trial on charges of illegal phone-tapping and of accepting bribes in the £200m scandal surrounding alleged embezzlement from the Bank of Crete.

The special courts, however, will suspend preparations for the hearings during the election campaign.

Rakowski wins the Gorbachev seal of approval for Poland's policies

By Quentin Peel in Moscow

THE LEADER of Poland's Communist Party, Mr Mieczyslaw Rakowski, emerged from extended talks with Mr Mikhail Gorbachev yesterday to declare that the Soviet leader had expressed open approval for the policies of the Solidarity-led Government in Poland.

"He understands the situation, and he approves of what is going on," said Mr Rakowski, the former Communist Prime Minister who effectively lost the Polish elections to Solidarity.

"Comrade Gorbachev approved of the policy of our Prime Minister Mazowiecki," he added. "Our Soviet comrades have great confidence in our leadership in Poland, and they realise what is going on in our country."

The discussions ranged over the government strategy to tackle the Polish economic crisis, the status of the Polish Communist Party in the wake of its election defeat, and plans for inner party reform, he said.

They also covered relations between the states of Eastern Europe in the current political upheaval – but with no specific mention of the Warsaw Pact.

Challenged at his closing news conference about how far the Soviet Union might be prepared to tolerate political change in Poland, he said the question was irrelevant.

"Now we are switching to the market economy which does not have any limits," he said. "This is why we are not interested in the problem of limits, as far as freedom within the Warsaw Treaty Organisation is concerned.

"We didn't raise this question. The words Warsaw Treaty Organisation were never mentioned in our talks."

He would not rule out the possibility that in 10 or 15 years the Warsaw Pact might no longer exist, nor that the Soviet Union might even become a multi-party democracy.

However, he refused to be drawn on his own attitude to the reformed Hungarian Communist Party, preferring rather to pay tribute to the old-style leadership of Mr Janos Kadar, before he was ousted.

None the less, he predicted that his own Polish United Workers' Party would also have to change its name and its programme at the next party congress. It was not at all clear that he would follow the same path towards social democracy now espoused in Budapest.

"We must study the Hungarian programme very closely to avoid possible errors and mistakes," he said. He was happy that for once it was Hungary, not Poland, that was the guinea pig.

Indeed, he said Mr Gorbachev had called Poland the "testing ground" in Eastern Europe. "I would like some other country to be used as the testing ground sometimes," Mr Rakowski commented.

The Polish party leader was effusive in his remarks about Mr Gorbachev, seeking no doubt to rival Mrs Margaret Thatcher, the British Prime Minister, on her last Moscow visit.

He talked of his "brilliant counterpart, brilliantly familiar with the situation in the world today." In a dusty dismissal of Mr Gorbachev's predecessors, he added: "This has never been the case before."

As for the acutely sensitive question of whether the Soviet authorities are ready to admit Soviet responsible for the Katyn massacre of Polish army officers in the Second World War, he confirmed that he did raise the question.

"I am quietly expecting the moment when all the dots are put on the i's," he said.

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AMERICAN NEWS

Missing man charged with $17m insider trading

By Janet Bush in New York

FEDERAL prosecutors have unsealed a year-old indictment charging Mr Fred Lee with insider trading, in the hope that publicity will help the authorities to arrest the businessman, who is believed to be living in Taiwan.

The total illegal profits alleged to have been made in an extensive insider trading scheme make this the largest insider trading case since the one brought against arbitrageur Mr Ivan Boesky in 1986.

The indictment charges that Mr Lee made $16.5m (£10.6m) on trades based on takeover tips from Mr Stephen Wang, formerly a junior analyst at Morgan Stanley, who was recently released from jail.

Mr Lee settled a civil case filed by the Securities and Exchange Commission in August, paying $25m to a court-appointed receiver. As part of the settlement with the SEC, Mr Lee neither admitted nor denied the insider trading charges.

Mr Wang's deal with the SEC included pleading guilty to criminal insider trading, for which he was sentenced to three years in jail (of which he served only eight months) and ordered to return $127,000.

Mr Benito Romano, US attorney, said federal prosecutors had decided to unseal the indictment because efforts to find and arrest Mr Lee over the past year had failed.

Taiwan does not have an extradition treaty with the US covering the offences alleged in the 493-count indictment, originally filed under seal in October 1988, and unsealed late on Tuesday.

The indictment charges Mr Lee with paying Mr Wang $200,000 for non-public information about planned mergers, takeovers and leveraged buyouts involving companies represented by Morgan Stanley. He is charged with conspiracy, mail fraud, securities fraud, wire fraud and fraud in connection with a tender offer.

He faces up to five years in prison on each of the 493 criminal charges and tens of millions of dollars in fines, Mr Romano said.

It identifies 16 deals between June 1987, and July 1988, and alleges that Mr Lee carried out the illegal transactions by trading in more than 40 accounts at eight foreign and domestic brokers, most of which were listed in the names of relatives and third parties.

● Mr Richard Breeden, a former member of the White House staff, was sworn in yesterday as chairman of the Securities and Exchange Commission.

"Maintaining strong and competitive US financial markets in an era of global capital flows will be among my key priorities, along with continued resolute action to prevent fraud and to protect investors," he said.

He was nominated for the post on September 7 and confirmed by the full Senate on Wednesday last week. He will be the 24th chairman of the SEC.

Panama emergency laws will hit rebels and strikers

THE Panamanian government has announced the first of a series of emergency measures, partly to cut costs, partly to penalise those involved in last week's military coup attempt, Tim Coone writes from Panama City.

Under a new decree issued on Tuesday evening by the provisional government, public sector employees are now subject to dismissal for involvement in go-slows, work stoppages or any acts of opposition to the government.

The measure is retroactive to the beginning of last month, and will be used to lay off an estimated 20 per cent of the public sector workforce as part of an economy drive. The justification, however, will be their alleged opposition to the government. A number of public offices were said to have welcomed last week's coup attempt before it became apparent that it had failed.

Further austerity measures include a moratorium on all public sector pay increases, bonuses, or hiring of new personnel and a suspension of the so-called "13th month" payment to public sector employees. This extra payment, equivalent to a month's salary, is normally made at Christmas to supplement family incomes for the holiday period.

The measures have been taken "to avoid massive lay-offs and to maintain basic public services... and to adjust costs to the financial resources of the state". They are a recognition that US economic sanctions against the government have begun to bite, as is a campaign by the ADOC opposition alliance to encourage the public to delay payment of taxes and public utilities bills.

Mr Guillermo Endara, an ADOC leader, had been staging a hunger strike to draw attention to the campaign but suspended it this week saying he had achieved his objective.

More emergency measures are expected to be announced in the coming days, and an Assembly of "Popular Power Representatives" is being set up to replace the National Assembly of elected representatives, which was disbanded last month when the provisional government of President Francisco Rodriguez was sworn in.

The next attempted coup will not be so gentlemanly

Tim Coone on the bloody aftermath of a revolt

CAPTAIN Nicasio Lorenzo is dead. Neither Captain Lorenzo nor the circumstances of his death was ordinary.

He was until a week ago the head of Panamanian counter-intelligence. He was arrested immediately after the failed coup attempt on October 3 against Panama's military leader, General Manuel Antonio Noriega. He had also been a member of Gen Noriega's elite inner circle of some 40 officers, known as the Supreme Military Council.

He died in custody – of asphyxiation, according to his death certificate. Unofficially, his family was told he had hanged himself.

At his funeral service on Tuesday, family, friends and priest alike clearly did not believe the official version. His bereaved wife said: "He was a man incapable of doing anything against his own life or the life of any other. My family does not believe he did this with his own hands."

The priest who presided over the funeral service is the spokesman for Panama's Archbishop Marcos McGrath. During his sermon, which became a thinly-disguised attack on Gen Noriega's regime, he said: "The truth will be known. We will seek justice. Without law and without justice we dehumanise ourselves and return to chaos and the law of the jungle."

Capt Lorenzo was buried in sanctified ground, an unequivocal message that the Catholic church does not accept his death as suicide.

There is now growing concern for the fate of the other 26 officers and 10 lower ranks who along with Capt Lorenzo were officially listed as having been arrested last Wednesday after the rebellion. These include two colonels and a lieutenant colonel, one of them Colonel Guillermo Wong, head of intelligence and Capt Lorenzo's immediate chief.

Ten other rebels were listed as killed, eight of them officers, as a result of the rebellion, and there is strong suspicion that they were summarily executed after their surrender.

The purge taking place in the Panamanian Defence Forces appears to be unprecedented in its scope and violence, as Gen Noriega seeks to re-establish control within the now deeply-divided institution, which until the coup had proved to be a solid base of support. Between the dead, wounded and arrested, an estimated 10 per cent of the PDF officer corps were involved in the coup attempt, which was indirectly supported by US troops based in Panama. The total number involved, including sympathisers, may prove to be substantially higher.

The difference between this and previous coups and attempted coups in Panamanian history, is that they have in the past been tense but gentlemanly affairs, with little or no bloodshed. That Rubicon however, has now been crossed – but by Gen Noriega and not by the rebels.

In addressing the 250 mourners at Capt Lorenzo's funeral, Archbishop McGrath's spokesman warned against thoughts of revenge, saying: "Violence only breeds violence."

But the grim expressions on the faces of his audience suggest that the next coup attempt – and people seem to think there will surely be one – will be anything but gentlemanly.

White House puts the blame on Congress

By Lionel Barber in Washington

THE Bush administration yesterday sought to shift blame for its poor handling of the aborted coup in Panama by accusing Congress for meddling in foreign policy.

Mr Richard Cheney, US Defence Secretary, said congressional limits on covert action – undercover operations managed by the Central Intelligence Agency – undercut the executive branches ability to deal with the crisis. "It's really not their bailiwick," he said.

Mr Brent Scowcroft, President George Bush's national security adviser, has criticised Congress for "micro-management", adding that the legislative branch "by its actions and its demeanour, certainly leaned us against the kinds of things now they're saying we should have done."

Together the remarks form part of an official public relations offensive in the wake of last week's failed coup by junior Panamanian army officers against General Manuel Noriega, the country's military ruler. While self-serving, they reflect concern that the administration's desire to co-operate with Congress may have hampered its ability to mount covert operations.

In the first six months of the new administration, various covert actions – the term used to describe efforts to influence the course of events abroad without the US role being revealed – have been leaked either by congressional critics or by administration officials. These include a revelation last May that the US was supplying funds to the Panamanian opposition.

Mr Cheney – a former congressman from Wyoming – said Congress had legitimate oversight roles, but "we had situations here where members were literally calling agencies downtown, or even people in Panama, as these events unfolded, demanding information. That creates all kind of problems."

The public criticism of Congress is matched by private sniping about the effectiveness of Mr William Webster, the CIA director, who was appointed by President Reagan at the height of the Iran-Contra arms-for-hostages scandal. This affair itself caused Congress to clamp down on covert actions, and encouraged the White House to ban an operational role for a much-reduced National Security Council staff.

Brazil state bus maker auction off

By Ivo Dawnay in Rio de Janeiro

OPPONENTS of Brazil's tortuously slow-moving privatisation programme were jubilant yesterday following the cancellation of the auction of Mafersa, a wholly state-owned bus and rolling stock manufacturer.

The auction, planned for today, was halted on the orders of President José Sarney after allegations that the company had been intentionally undervalued.

Deputy Luis Inacio Lula da Silva, presidential candidate for the socialist Workers' Party (PT), had made the claim in an election broadcast, following similar accusations by leaders of Mafersa's 2,800 employees. Despite denials from the BNDES, the federal development bank responsible for the sale, Mr Sarney has now called off the sale pending an inquiry.

In consequence, the BNDES has also postponed indefinitely the sales of its shareholdings in two other state companies, the Camaçari chemicals plant and the Caraíba copper mine, both in Bahia state.

The decisions come as a body-blow to Brazil's already controversial privatisation programme and a triumph for its left-wing opponents.

In the past four years, only 12 of the hundreds of state-owned companies have been sold, to a total value of $485m (£313m).

Most of the main candidates in the current presidential election support the disposal of many state-owned assets in principle. But there is little vigorous enthusiasm for the programme, even among right-wing politicians.

The allegations over Mafersa centre on a decision to fix a floor price on the company of $20m, despite a calculation in the BNDES offer document that it was worth $38m.

Whatever the outcome of the inquiry, the controversy has further damaged the image of privatisation in Brazil, despite a widespread consensus among economists that it is an essential tool in the battle to reduce the public sector deficit.

AT&T and MCI in advertisement war

By Our Foreign Staff

AMERICAN Telephone & Telegraph and MCI Communications, the two US long-distance telephone services companies, have locked horns over their rival advertising campaigns.

MCI has brought a suit against AT&T for false and deceptive advertising; AT&T has written to several television companies asking them not to show MCI commercials.

The two companies both operate long-distance services, with AT&T taking about 75 per cent of the competitive market, down from 85 per cent in 1984, when the company was split up into different units and the industry was deregulated. MCI has about 12 per cent.

The two are old sparring partners in the legal ring: in the late 1970s, MCI won an antitrust case against AT&T on the basis that the latter had tried to choke MCI and bar it from the long distance market, and they have been at each others' throats since then. The two have run fiercely competitive advertising campaigns, often directed at each other's commercials.

In a suit filed in Federal District Court in Washington, MCI charged that AT&T launched a false and deceptive advertising campaign in "an attempt by AT&T to recapture its steadily eroding share of business customers, residential long distance and facsimile markets."

MCI said the AT&T campaign intensified last July, when the big carrier "maliciously attacked MCI's honesty and the value of MCI's competing products and services by falsely and deceptively representing that it [AT&T] is superior to its competitors in general, and MCI in particular, in terms of trustworthiness, quality and price."

AT&T, for its part, disputed MCI claims that MCI saved customers money and that 100,000 AT&T customers every week shifted to MCI. In letters sent to ABC, CBS, NBC and Cable News Network, AT&T said the claims were blatantly false and were causing irreparable injury to AT&T and "we hereby request that all MCI commercials containing these claims immediately be discontinued on your network."

California insurance group in rates rise deal

By Our Foreign Staff

FARMERS Group, the California-based insurer owned by BAT Industries of the UK, said on Tuesday it had reached an agreement with the California Insurance Commissioner that will allow it to boost its rates by 5.9 per cent on November 30, despite a statewide freeze.

Under the agreement, Ms Roxani Gillespie, the Commissioner, will then determine whether the rates are fair and reasonable or excessive. A hearing on that matter is planned for December 1st.

Farmers filed suit earlier in the day in state court seeking to block the six-month freeze on car insurance rate increases, which was announced on October 2.

On the basis that it needed $100m (£65m) to cover assigned-risk losses this year, Farmers Group had told Ms Gillespie it planned to boost its rates 5.9 per cent on November 1. Assigned-risk drivers are those with bad driving records who otherwise would not be accepted by any insurance company in California.

In its suit, which sought temporary and permanent injunctions, Farmers said the freeze was illegal, unconstitutional and unenforceable. The company also said the freeze was "contrary to the express language of Proposition 103 as modified by the Calfarm decision," a California Supreme Court ruling which eased for insurance companies some of the restrictions the insurance reform initiative imposed.

Approved by California voters last year, Proposition 103 was designed to force insurance companies to cut rates.

WORLD TRADE NEWS

Hills defends free market policy in S Korea

By Maggie Ford in Seoul

MRS CARLA HILLS, the US Trade Representative, yesterday fended off strong criticism that Washington was unfairly penalising South Korea's economic success with a spirited defence of free markets and an open trading system.

In talks with ministers on bilateral and international issues, Mrs Hills said that while South Korea was making good progress in opening its markets and introducing free enterprise into its economy, more needed to be done.

She stressed competition was the engine of growth and welcomed South Korean support for free trade efforts in the Uruguay Round.

On the four main issues in dispute, South Korean officials had given assurances of progress, she said. They had pledged to enforce the protection of intellectual property rights and to hold further meetings this month on the opening of the telecommunications market.

The US was working with South Korea to help Seoul comply with the expected ruling by a panel of the General Agreement on Tariffs and Trade that it could no longer claim protection of its beef market.

South Korea has restricted beef imports under provisions designed to protect countries with balance of payments deficits, although it has recorded surpluses for three years.

On subsidies for industries such as shipbuilding, Mrs Hills said that she was happy to see that South Korean ministers agreed that Government funding for the shipbuilding industry no longer made sense. Seoul was recently forced to fund a costly bail-out for the shipyard owned by the Daewoo conglomerate.

Mrs Hills's visit to Seoul has triggered off a wave of public concern that the US is planning to retaliate against South Korean exports. But Mrs Hills said talks had been productive and friendly and had concentrated on a broad discussion of US trade policy.

She said that the US strategy was to push for the settlement of disputes primarily through the Uruguay Round, but also on a bilateral basis. Washington would use the leverage of its big, open market if necessary, she said.

All nations had trade barriers, she said, including the US, but world growth and prosperity required not more protection but less, so nations could trade on the basis of expertise.

South Korea, as a country which had achieved an economic miracle, was closely watched. It needed to introduce more market forces into its economy rather than rely on the state for development.

The National Assembly is to send a delegation to Washington later this year to hold talks with US Congressmen over the farm products issue.

EC-Soviet talks hit political problems

By David Buchan in Brussels

TRADE TALKS for a wide-ranging trade and economic co-operation accord between the Soviet Union and the European Community have hit two essentially political snags, negotiators for both sides said yesterday.

Brussels is insisting that cuts in tariffs and removal or easing of some of the 1,500 import quotas on Soviet goods should be conditional on getting from the Soviet Union "effective reciprocity", its standard requirement from deals with state-trading countries. The implication is that if EC were to lose market share in the Soviet Union, it might re-impose some or all trade barriers.

Mr Ivan Ivanov, the chief Soviet negotiator, however, hit out at Brussels' continued categorisation of his country as a state-trading economy.

This label could, he said, no longer fit a country where more than 8,000 enterprises now had the right to trade abroad directly, and where customs tariffs and procedures would being remodelled on the Western pattern.

Speaking to the press after two days of negotiations here, Mr Ivanov also said that, while Moscow did not intend any new major borrowing in the West, it would not discriminate against West European imports when allocating scarce hard currency.

The other sticking point is over Soviet insistence that the new trade accord refer to last year's EC-Comecon mutual recognition agreement.

Brussels officials said such a reference does not belong in a purely bilateral agreement. For their part, Soviet officials appear stung, if not very surprised, that the Community still continues to give Comecon, the 10-nation Communist trading bloc, a fairly cold shoulder.

"Ecology, technical standards, statistics and transport are four issues which need to be discussed on a multilateral basis," said Mr Ivanov, who pointed that without the Comecon organisation, the EC's only possible Eastern partner in a multilateral dialogue would be the Warsaw Pact.

● The US opened its challenge to the European Community's new television broadcasting directive in the General Agreement on Tariffs and Trade (Gatt) yesterday, William Dullforce writes from Geneva.

Mr Rufus Yerxa, Deputy US Trade Representative, said the US would ask on November 1 for a Gatt disputes panel to adjudicate, if the issue had not by then been satisfactorily resolved in bilateral talks with the EC.

Brussels contends that its TV directive does not come within the competence of Gatt.

Britain seeks to boost arms sales to Japan

By Michiyo Nakamoto in Tokyo

THE BRITISH Ministry of Defence has asked Japan's Defence Agency (JDA) to establish regular meetings to discuss the procurement of British defence equipment.

The move comes as British arms manufacturers have been stepping up efforts to increase their share of the growing Japanese defence market. Japanese defence spending has become one of the largest in the West after that of the US, according to a report last week by the International Institute for Strategic Studies in London. But UK defence companies have only a tiny share of the market which is 96.7 per cent dominated by US manufacturers.

It is also a very sensitive time for Japanese defence-related trade, as the bitter dispute with the US over terms of a joint venture to build Japan's new FSX fighter has highlighted the difficulty Japan faces in balancing its desire to build up its own defence industry with the US desire to prevent Japan becoming a competitor in yet another high technology sector.

The dispute over the FSX has highlighted the sensitive nature of Japanese defence

The Japanese constitution, imposed by the US after the war, also prohibits the country from any military build-up other than a minimal self-defence force. The Japanese government has been caught in a difficult position as increasing pressure from the US to share the burden of defending the Western Pacific conflicts with the widely supported pacifist tone of the constitution.

Japanese defence spending has been growing at a brisk pace in recent years, 4.2 per cent in the current fiscal year to March 1990 and is forecast to grow 4.8 per cent next year. British military equipment makers, who have seen their Middle Eastern market shrink after the ending of the Iran-Iraq war, have been eager to expand their share of other markets, including Japan. "I can certainly confirm that British companies in the defence equipment field have become more interested in the possibility of marketing in Japan," said an official at the British Embassy in Tokyo.

Japan's defence policy is closely tied to the country's security treaty with the US, and US defence manufacturers have enjoyed a near monopoly of Japanese defence imports. However, the Japanese have suddenly found that the US has become increasingly wary of supplying it with sophisticated military technology. This could lead to greater opportunities for defence equipment suppliers of other countries such as Britain, one industry official in Tokyo said.

The British Embassy official was also confident that the Japanese would find many advantages in buying British defence equipment. "We are now very competitive, we are inter-operable with the US and we have good equipment and many countries buy from us," he said.

A breakthrough into the Japanese market was achieved this summer when the Self Defence Force decided to buy three BAe 125-800s from British Aerospace over the next three years.

"This is the first sale of any type of aircraft to the JDA by Britain in 30 years," said Mr Shinichiro Watari, managing director of Cornes, the Japanese distributor for a number of British defence equipment makers including BAe, Plessey Avionics, Ferranti, Racal and Martin Baker.

Reports that the JDA is about to place a large order for BAe's Harrier II Plus jump jets could not be confirmed. The issue is highly sensitive because the jets would give Japan the capability to operate offensively from ships. Thus, their purchase would be difficult to square with the explicit policy that only defensive military equipment is used by the self-defence forces.

A spokesman for the JDA said there were no specific plans set up a bilateral meeting with the UK on defence procurement and emphasised that pressure on Japan to open its doors to imports would not affect the agency's decisions on whether to import equipment or to procure them domestically. "We don't let trade matters interfere in defence matters," he said.

Such a consultative committee between Japan and the UK could none the less be very productive in refocussing Japan as a potential market in the minds of British markers, one industry official said.

Farmers back Bush on reform

By William Dullforce in Geneva

LEADERS of the biggest US farmers' organisation have backed the Bush administration's approach in negotiations to reform agricultural trade but said the talks were going too slowly.

After two days of briefings here by negotiators from the US, the European Community, Japan, Mexico and the Cairns group of 13 farm-exporting nations, a delegation from the American Farm Bureau Federation (AFBF) singled out for special criticism an EC proposal that would allow countries to increase farm protection in some areas in return for curbing support in others.

Brussels' "rebalancing" proposal contradicted the commitment made by the EC in April in a crucial logjam-breaking agreement to negotiate substantial progressive cuts in farm supports, Mr Keith Eckel, President of the Pennsylvania Farmers' Association, said.

Mr Harry Bell, AFBF Vice President, said US farmers saw Brussels' proposal as a way of circumventing duty free access to the EC market for US soya and corn gluten exports.

Both Mr Bell and Mr Eckel are members of the agricultural policy committee advising Mr Clayton Yeutter, US Agriculture Secretary. Mr Dean Kleckner, AFBF President, who headed the delegation, is a member of President Bush's advisory committee for trade negotiations.

Mr Bell said it was difficult to judge progress in the Uruguay Round talks on farm trade reform until comprehensive proposals from the EC and the Cairns group had been tabled. But – with a new US Farm Bill about to be written – US farmers would like things to move more quickly.

In the long run the whole process of negotiating was about compromise but US negotiators had to take back to Washington a farm trade agreement that was acceptable to Congress. And spokesmen for the US farm industry and commodity groups would have a say in deciding what was acceptable.

'With employment in US agriculture down to between 2 and 2.5 per cent of the population, there was not much room for further shrinkage. Some consolidation could be foreseen and small farmers would concentrate more on speciality crops.

A key concern was to ensure that US farming gave a sufficient return to attract new entrants, as older farmers retired.

US farmers did not fear competition, provided there was a level playing field on export markets.

Italians announce trade agreement with Soviets

By Sari Gilber

THE Italian and Soviet Foreign trade ministers yesterday wound up two days of meetings laying the groundwork for a series of major trade and economic agreements to be signed during Soviet leader Mr Mikhail Gorbachev's first visit to Italy in late November.

At a news conference yesterday, Mr Renato Ruggiero Italian Foreign Trade Minister, and Mr Costantin Katushev, the Soviet Minister for Foreign Economic Relations, said that the two new framework economic co-operation agreements would represent a milestone in the further development of bilateral trade relations. They are expected to greater Soviet imports of Italian consumer goods, technology, light inductrial, and industrial products.

Mr Katushev's visit comes at a time when the Italians are worried by a continuing decline in their exports to the Soviet Union.

In the first six months of 1989, Italian imports from the Soviet Union increased by 38.7 per cent over 1988, but exports to the Soviet Union grew by only 5.7 per cent.

The imbalance resulted in a trade deficit of L909bn ($657m) compared to L377bn in the same six month period of 1988.

The Italian share of the Soviet market has also been declining steadily, from 12.2 per cent in 1987 to a projected 6.9 per cent for this year.

Mr Ruggiero said trade with the Soviet Union grow further.

A joint communiqué said the Italians hoped to see exports increased, and included Soviet assurances that contracts with Italian companies would lead to more Soviet imports.

BAe seeks anti-tank partners

By David White, Defence Correspondent

BRITISH Aerospace is seeking *European and US industrial* partners for a new anti-armour weapon which it is developing out of its own funds.

BAe is aiming at a potential market estimated at over £3bn. The weapon, Merlin, is an "intelligent" mortar munition. BAe claims it is the first of its kind, using a miniature millimetric radar seeker, to have had practical demonstrations.

The company says, however, it does not intend to make all the weapon itself and aims to find partners for well over 50 per cent of the work. In the US it is hoping Merlin will meet the Marine Corps' requirement for a terminally-guided mortar system and would expect any deal to be tied to manufacture *of the weapons in the US.*

Successful firings have recently been carried out at the Ministry of Defence's West Freugh range in Scotland.

Originally jointly funded by the MoD, Merlin is designed for infantry use in all conditions, out of sight from the target, attacking the vulnerable tops of tanks at ranges of between 1.5km and 4.2km. Fired from a standard 81mm mortar, on the ground or an armoured vehicle, its seeker is programmed to choose moving targets as first priority, then stationery targets, within a chosen zone.

● A CONSORTIUM led by British Aerospace (BAe) has emerged as low bidder with a *price of TL630bn ($273m) for a* contract to supply a commercial satellite package to Turkey.

A telecommunications satellite contract for the Turkish posts, telegraphs and telecommunications (PTT) administration *is not expected before* early 1990.

Turkey needs the satellite to improve telecommunications and facilities because it is only partially within range of satellites over Europe.

Aerospatiale of France has made a bid of TL652bn and Hughes Corporation of the US has made a TL839bn bid. The cost of the US bid is explained by the inclusion of insurance.

Iraq to spend $560m to expand port

By Hunter Reynolds in Dubai

IRAQ has announced plans for a $560m expansion of its port in Umm Qasr, on the Gulf. The port authority has signed a contract to build 13 new jetties, each with a length of 200 metres, the Iraqi News Agency reports.

The contract, worth IDinars 173.5m, has been awarded to a local contractor, al Mansour Construction, with construction due to be completed in 45 months. The new jetties will have an annual capacity of 3.3m tonnes.

Gulf-based shipping sources say the decision to expand Umm Qasr shows that Iraq expects Basra port to remain closed to shipping for longer than expected. Until the Gulf war, Basra was Iraq's main gateway for imports of commodities and raw materials.

Basra was badly damaged during the war but Iraq has cleared much of the debris.

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Meanwhile, here's an outline of how we see our Sports Channel shaping up.

We'll transmit sport, sport and nothing but sport for over 12 hours a day.

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As a rule, this 8.00 slot will be allocated to a different mainstream sport each night. By popular demand, football and golf will be well covered.

On an ongoing basis, we'll be generous with air time for those sports currently under-served by existing channels. Motor and motorcycle racing spring to mind.

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Following negotiations, Mark McCormack was asked why he decided to do business with British Satellite Broadcasting.

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OVERSEAS NEWS

Syrian pilot hands rare coup to Israel with his defection

By **Hugh Carnegy** in Jerusalem

A SYRIAN air force pilot flew his Soviet MiG-23 fighter aircraft across the Golan Heights into northern Israel yesterday in a dramatic and rare defection which handed Israel a valuable intelligence and propaganda coup.

Security officials said a second Syrian pilot had flown his jet to Egypt, landing near the Mediterranean port of Alexandria, but Cairo denied this.

Mr Yitzhak Rabin, Israeli Defence Minister, and General Dan Shomron, Chief of Staff, left a government meeting in Jerusalem and flew north to meet the pilot, named by the Israelis as Major Adel Bassem, aged 34, as soon as news broke of his arrival. It was the first time since an Iraqi pilot flew his MiG-21 to Israel in August 1966 that an Arab pilot had taken such action.

Officials in Damascus said Maj Bassem had made an emergency landing due to mechanical problems and they asked the International Red Cross to seek his return. But the Israeli authorities insisted he had asked for political asylum.

Military officials said Major Bassem was on a training flight with another MiG-23 in Syrian air space east of the Golan Heights when he veered off and headed for Israel. Despite the sensitivity of the Golan frontier, he was not attacked but was allowed through Israeli defences and made to land at an airstrip at Megiddo – near Biblical Armageddon. His plane was unarmed.

The Israelis said they were taken by surprise by his action but moved swiftly to take advantage of it. Israeli authorities were clearly delighted by the information on the condition of the Syrian air force intelligence they would garner from the pilot and his aircraft.

Although the MiG-23 has been in service for some time it still forms the main strike force of the Syrian air force with the newer MiG-25. Maj Bassem's aircraft was expected to yield valuable information on updated avionics and other systems.

Officials were equally also keen to interrogate Maj Bassem about his experience and knowledge of the Syrian air force's operating methods, doctrines and morale.

It is said by the Israelis to have recovered considerably in terms of hardware and operational systems since Israel knocked out its Soviet surface-to-air missile batteries and shot down dozens of aircraft for no losses in Lebanon in 1982. But senior officers still question the morale and ability of its pilots.

First indications were that Maj Bassem would be a willing source. "He doesn't look like he came here in order to keep quiet," said one official. "He should give us a clear indication of where the Syrian air force is going."

Syria, still at war with Israel after all-out conflicts in 1967 and 1973, has about 140 operational MiG-23s. The plane, known by Nato as Flogger, is also the mainstay of the Iraqi air force and has been supplied to Egypt, Libya and Algeria.

Israel shot down a number of Syrian MiG-23s in air battles during its 1982 invasion of Lebanon. Israeli fighters downed two MiG-23s in a dog fight over Lebanon in 1985.

Independent experts said the Soviet Union had made 12 versions of the MiG-23 since a prototype of the multi-role fighter was first unveiled in 1967.

The single-seat aircraft is usually armed with a 23mm twin-barrel gun, has wing packs for air-to-air missiles and can be used for both interception and bombing.

With a speed of Mach 2.025 it was once the fastest fighter in the world. It has a combat radius of 900 to 1,300km.

Pinball scandal threatens political upsets in Japan

By **Stefan Wagstyl** in Tokyo

A FRESH financial scandal, involving links between politicians and the operators of *pachinko* (pinball) gambling parlours, is threatening to disrupt Japanese political life.

Like the Recruit financial affair, which led to the ruling Liberal Democratic Party's biggest electoral defeat in more than 30 years this summer, the *pachinko* scandal concerns allegations that Diet members took bribes in return for political favours.

There is no suggestion that the *pachinko* affair will have the drastic consequences of Recruit but the Recruit scandal also began with minor allegations before it eventually engulfed two prime ministers, one former prime minister and a host of other figures.

The *pachinko* affair could prove embarrassing even if no particular allegations of wrong-doing are proved because *pachinko* is notorious in Japan for its association with tax evasion, illegal immigrants and organised crime. *Pachinko* hall owners have topped the national list of tax offenders for the last five years.

Pachinko halls are the gold mines of urban Japan – rough, tough and immensely lucrative, they exploit the fact that the country's dreary suburbs often offer little in the way of cheap entertainment. *Pachinko* parlours stand out with their neon lights and garish hoardings. They hardly ever close. The players set small stainless steel balls spinning across a board with the aim of scoring enough points to win a prize in a few hours' play. *Pachinko* operators are prohibited from making cash payouts, but in practice it is easy to exchange the gifts they present into money. A separate industry of exchange shops has sprouted, which the police do little to control.

The country's 14,500 parlours have a bigger turnover than the motor industry – Y10,000bn (£44.5bn) according to official estimates, Y30,000bn according to some in the industry. The *pachinko* operators' access to large amounts of cash makes the industry a prime target for criminals wanting to launder money. Protection rackets are also rife, with gangs often fighting for control over particularly valuable parlours.

Shukan Bunshun, a weekly magazine, said police avoided investigating parlours too closely for fear of reprisals. About a quarter of the industry is operated by Koreans with ties to North Korea who dominate the National Pachinko Parlours' Association. Reports that the industry makes large contributions to North Korea are so widely believed that many players stay away from parlours around February 16, birthday of Kim Il Sung, the North Korean leader, for fear that the machines might be rigged to generate extra profits.

In the past, politicians may have tried to hush up such an affair. But they would find this almost impossible in the wake of public condemnations over Recruit. Mr Masao Goto, the Justice Minister, told a Diet committee yesterday the prosecutor might take an interest in the affair in the light of articles which had appeared in magazines and other media.

According to Japanese newspapers, Y150m has so far been identified as being distributed between 1984-88 among about 110 politicians, including 84 from the LDP, and 11 from the opposition Japan Socialist Party.

Newspaper reports say the biggest donations were made on three occasions, once during national elections in 1986, when politicians' expenses were particularly heavy, and twice when the Diet considered measures which might have hurt the parlour operators' profits. One was a 1984 plan to give police officers the right to inspect businesses offering food and entertainment; this was rejected. The second was a proposal made last year for allowing *pachinko* customers to use pre-paid cards, instead of cash. This measure, which is still being prepared, would make it difficult for operators to hide untaxed profits.

The affair came to light in articles in Shukan Bunshun, which focused heavily on the involvement of Socialist Party members. But, much to the chagrin of the LDP, other publications joined the investigations and unearthed links with the ruling party.

Some LDP members believe they should end the scandal as soon as possible. Others argue the JSP's involvement is greater than the the LDP's so they should bring more charges into the open. Mr Ichiro Ozawa, the LDP secretary general, told a party meeting on Monday: "We'll do it even if we get a little scratched ourselves... We will do it well enough to deliver a fatal blow to them (the JSP)."

Sato seeks consensus on company listings

By **Robert Thomson** in Tokyo

MR Mitsuo Sato, senior managing director of the Tokyo Stock Exchange, plays to audiences with an ear for very different sounds. There is a Mrs Margaret Thatcher who wants seats on the exchange for two British securities companies, and there are the current members, particularly the small Japanese firms, which cannot see much advantage in allowing more competition.

The answer, as Mr Sato sees it, is "consensus." A serious space shortage has to be overcome by computerising more trades, and then the 20 members of a special exchange committee must come to a consensus on where to put the newcomers.

The two companies at the centre of the issue are Barclays de Zoete Wedd (BZW) and James Capel Pacific, which were not offered seats in December 1987, when 16 other foreign companies were given membership. Since that time, the British Government and, in particular, Mrs Thatcher have pressed the companies' claims for admission.

"From my standpoint, if the leaders of other countries too much emphasise this issue, it is not very good. It might be counter-productive. I think Mrs Thatcher understands this," Mr Sato said yesterday.

His point is that if the issue is portrayed as a reciprocal matter arising from the foreign market penetration of large Japanese financial houses, the smaller Japanese brokers will feel less inclined to make concessions that they believe will only benefit their larger competitors. As Mr Sato explains, "the medium and small size members don't have anything to gain."

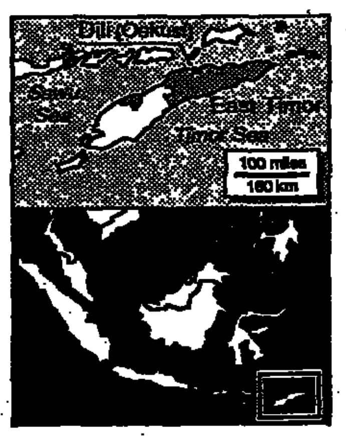
There are 20 members on the membership committee, and about eight representatives from the TSE secretariat who sit with them at their monthly meetings. Mr Sato expects that a final decision on admission, will come before the middle of next year.

The committee has already raised three possible classes of special membership, which Mr Sato emphasises are a second option to full membership and not necessarily to final proposals.

But Mr Sato emphasises that reaching a consensus "takes time." He says it will take time to see how much the space limitations can be overcome, and then it will take time to get the committee members to agree on admissions." In general, he says, the committee does not vote on an issue, but discusses it until reaching an amicable decision.

Pope faces human rights challenge in Indonesian territory of East Timor

By **John Murray Brown** in Dili, East Timor



THE POPE'S reputation as the uncompromising champion of human rights will be thoroughly tested today, when he arrives in East Timor, the devoutly Catholic, former Portuguese colony, annexed by Indonesia in 1976.

With the Vatican still to recognise Indonesian sovereignty over the region, the Pope has been keen to play down the political significance of what is officially described as a pastoral visit. It is the first Papal visit – and the first by any head of state to this poverty-wracked, predominantly Catholic region of 600,000 inhabitants.

On his arrival in Jakarta, on Monday, the Pope was quick to commend Indonesia for its record of religious tolerance – exemplary for a country with the world's largest Moslem population. Also, in an implicit reference to East Timor, he criticised those countries which are "tempted to disregard fundamental human rights in the misguided search for political unity based on military and economic power."

Since the invasion in late 1975, during which a tenth of the population died in fighting or the famine that followed, Indonesia has refused to negotiate on the status of its 27th, and youngest, province. As if to underline the point, at Dili, the provincial capital yesterday, it was Gen. Benny Murdani, the Defence Minister, himself a Catholic and the man closely associated with military operations in East Timor since the invasion, who was due to welcome the Pope.

The 100 or more journalists awaiting the Pope's arrival were preoccupied as to whether he would kiss the ground on arrival in Dili – a traditional gesture which would have added significance in this still disputed territory.

The Pope, in recognition of local Timorese sensitivities, has decided to say the Mass in Latin, not Bahasa, Indonesia's lingua franca which many Timorese still do not use. More ironically, the only site thought suitable is a vast dust-bowl arena, where locals say Indonsian troops executed several hundred supporters of Fretelin, the leftist Timorese liberation movement which briefly seized power in the wake of Portugal's withdrawal, and which still conducts a sporadic, but small-scale guerrilla campaign against Indonesian rule.

More than 10 years on, the Vatican, together with the United Nations and European allies of Portugal, including the UK, has not formally acknowledged Jakarta's rule. The UN describes the province as a non self-governing region. Yet, to avoid offending either country, a debate on East Timor in the UN has been postponed every year since 1982. Jakarta is clearly stepping up efforts to resolve the issue, bidding as it is for chairmanship of the Non-Aligned Movement.

Hopes are pinned on a bilateral settlement between Jakarta and Lisbon.

One senior Western diplomat in Jakarta described the Pope's visit as a further "nail in Portugal's coffin."

President Suharto, who recently visited the province, has given his backing to Mr Mario Carrascalao, the Governor of East Timor, who has been urging an easing of travel and other restrictions.

Before the end of the year, the President is expected to announce the dismantling of East Timor's special forces, which have had a dominant role in the province's commerce controlling the lucrative coffee business.

There is a growing desire in Jakarta to resolve an issue that continues to tarnish what is otherwise a trouble-free record on religious freedoms.

In East Timor, Catholics are free to practise their religion.

In terms of assistance, Jakarta has pumped more aid into East Timor than all provinces except Jakarta, and substantially more than Portugal provided in more than 400 years of colonial rule.

However, it is hard to avoid the feeling that Indonesia's rule, and particularly the heavy-handed presence of some 13,000 military, is still deeply resented. The government's obsession with security means that, in spite of recent improvements, freedom of movement for the Timorese is restricted. More depressingly, the accusations of military reprisals against civilians persist. According to officials, 27 civilians were killed in May, in unexplained circumstances.

For today's visit, the army has layed on several hundred trucks and three transport ships to ferry people in from remote areas. However, Bishop Carlos Belo, head of the Catholic Church in East Timor, said this week that perhaps 100,000 would attend – far fewer than the 400,000 Jakarta was predicting. Many Timorese know, he says, that the Indonesian government will benefit from the Pope's visit.

Bishop Belo, officially the papal administrator to East Timor, was criticised by Indonesian officials when, in February, he sent an open letter to the UN secretary general requesting a referendum.

"The people of Timor must be allowed to express their views on the future," he wrote. Hitherto, the people have not been consulted.

Jakarta is never likely to accede to that demand. If only briefly, the Pope's visit will remind the world of the very real suffering of this tiny Timorese community.

Malaysia to sell off power but keep posts

By **Lim Siong Hoon** in Kuala Lumpur

THE Malaysian Government is to sell its electricity industry in January 1991, but has reversed a decision to privatise the postal services. Thus the Ministry of Energy, Telecommunications, and Posts, has spared itself from redundancy.

The ministry has already lost its telecommunications agency to the privatisation cause. Flotation of the company, Syarikat Telekom Malaysia, is scheduled for next year.

Up to last month, there had been discussions about selling the postal services to a three-member consortium of local companies: Malaysia Mining Corporation (MMC), the tin group; Faber Merlin, the property and hotel operator; and Sapura Holdings, the telecommunications group. Neither the ministry nor the companies have explained why the plan was called off suddenly.

The ministry's National Electricity Board is the biggest of the three agencies under its jurisdiction. The sale of the board, a substantial profit earner, represents one of the country's largest privatisation exercises.

At Ringgit 5bn (£1.8bn), the board's net asset worth is said to be half its total assets. This compares with Telekom's Ringgit 2bn net worth when it was turned over to the private operator in 1987. The board expects a turnover of Ringgit 3bn for this calender year, with an after-tax profit of Ringgit 600m.

Telekom, in the Government's hands, barely broke even. Since denationalisation, it has reversed a Ringgit 96m net loss in 1987 for a Ringgit 76m profit, on a turnover of Ringgit 1.7bn.

The board may adopt Telekom's model in its privatisation, but there will be some modifications. Like Telekom, its first step, to be taken in January, is to hand over its business, property, rights and liabilities to private management.

In Telekom's privatisation, its monopoly business was simply transferred to a single company. The board may be privatised differently; its operations may be split into two: an electricity generation arm and a distribution and marketing company.

Generating equipment makes up 60 per cent of the board's Ringgit 10bn assets. The remainder covers transmission and distribution. To give up its monopoly on power generation, the Government is already encouraging companies to build and operate their own power plants. The oil companies, Shell and Petronas, have individually asked for such licences.

The board's installed capacity, at about 5,000MW, uses a fuel mix of coal, gas, oil and hydro. It supplies only to Peninsular Malaysia, where 80 per cent of the country's 17m people live.

Kim offers olive branch to former Korean leader

By **Maggie Ford** in Seoul

MR KIM Dae Jung, the South Korean opposition leader, yesterday offered an olive branch to former President Chun Doo Hwan, the discredited former leader currently in internal exile.

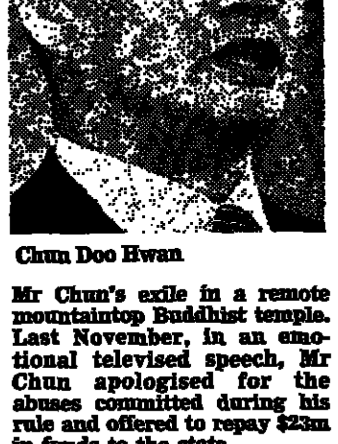
Addressing the country's parliament, Mr Kim said that if Mr Chun were willing to speak openly about the past to the National Assembly, he could then be guaranteed a normal life, with no restraints on his activities.

Mr Kim, who is at present under indictment for allegedly breaking the draconian National Security law, was charged with treason during Mr Chun's regime and narrowly avoided execution.

The opposition leader, whose party contains many members who were persecuted during the Chun years, said that six other men active during the dictatorship should step down from public office, but need not be punished for their past misdeeds.

In addition the National Security law and other statutes which have been abused should be rewritten or repealed, Mr Kim said. If these conditions are met, the Opposition will drop demands for a referendum early next year on the rule of current President Roh Tae Woo, who helped Mr Chun take power in a military coup in 1979.

Mr Kim's offer comes just before the first anniversary of Mr Chun's exile in a remote mountaintop Buddhist temple. Last November, in an emotional televised speech, Mr Chun apologised for the abuses committed during his rule and offered to repay \$23m in funds to the state.



Chun Doo Hwan

Opposition leaders have demanded, however, that he reveal the facts of the past, particularly the events of May 1980 when at least 200 people were killed by the army in the provincial city of Kwangju.

Dealing with the legacies of the past has bedevilled South Korea's transition to democracy over the past two years. The Government has pledged to come to an agreement on the sensitive issue by the end of this year.

UN team clears Swapo over 315 missing people

UNITED Nations investigators have been unable to determine the whereabouts of 315 people allegedly detained by Namibia's South-West African People's Organisation guerrilla movement, a UN official said yesterday, AP writes from Windhoek.

Mr Martti Ahtisaari, head of the UN contingent monitoring Namibia's transition to independence, said the investigators found no evidence to support charges that Swapo still held political prisoners. But he said the search for the missing people would continue.

Under the UN's independence plan, both Swapo and the South African-led security forces were required to release all prisoners. Many of the more than 200 people freed by Swapo alleged that hundreds of others had been held along with them and either were dead or still in custody.

Mr Ahtisaari sent an eight-member investigating team last month to Angola and Zambia, where Swapo maintained camps during its 23-year bush war against South African rule of Namibia.

The team's report, released yesterday, said 448 of 1,100 allegedly missing people were alive and free, 71 were found never to have been detained, and 115 were believed to have died in circumstances that were not specified.

The UN investigators said they visited 30 locations in Angola and Zambia during their three-week trip.

Mr Ahtisaari said the team found no evidence that alleged detainees had been moved from any of the locations before its arrival.

Swapo is favoured to win the most votes in UN-supervised elections from November 7 to 11 for an assembly that will draft a constitution for an independent Namibia. It must win two-thirds of the votes to have control over the assembly.

Opposition piles pressure on Gandhi over Bofors

By **K K Sharma** in New Delhi

OPPOSITION members in India's upper house of Parliament yesterday hooted and shouted at Mr Rajiv Gandhi, the Prime Minister, demanding vociferously that he resign over the Bofors controversy.

The Rajya Sabha was in uproar when the combined opposition vigorously attacked him after it had failed earlier in the day to have Mr Gandhi summoned to explain reports that Indians had received commissions on a \$1.4bn deal for supply of howitzers.

Spurning an offer to debate the issue, the opposition insisted that the chairman summon Mr Gandhi to make a statement. Angry exchanges followed when the demand was rejected and the opposition blocked normal business for nearly an hour before staging a walk-out from the House.

But members returned later when Mr Gandhi arrived unexpectedly to announce a scheme for urban employment. His speech was inaudible as they shouted demands he resign and hurled abuse at him.

Despite the noisy demonstration Mr Gandhi has got away rather easily. He has avoided giving an explanation for misleading Parliament on the question of commissions given by Bofors to Indians.

It seems unlikely that the opposition will be able to do much more in the current session's remaining three days, especially as opposition parties resigned from the Lok Sabha, the lower house of Parliament, last July and the parliamentary battle is thus limited to the Rajya Sabha.

However, Bofors and corruption in high places are certain to be among the main issues in the campaigning before general elections, which must be held before January 14 when the present Parliament's five-year term ends.

Iraqi Kurds succumb to a ruthless and successful operation

Victor Mallet reports that while Iraq has not won the propaganda war, its military grip on Kurdistan is undeniable

IRAQ'S armed forces, after driving out Iranian troops and their Kurdish guerrilla allies last year with the help of chemical weapons, have largely reconquered Iraqi Kurdistan.

"I don't see any current problems in the north," says Mr Nizar Hamdoun, the Iraqi Deputy Foreign Minister. "All areas are back under our control. All areas are now under the firm control of the government." Kurdish opposition leaders have reason to dislike such statements, but little reason to dispute them.

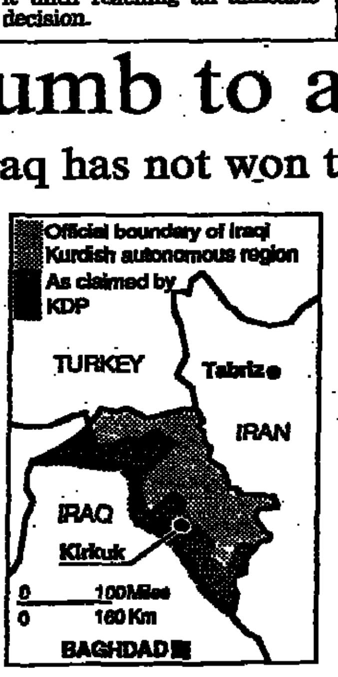
This year, in the face of ineffectual international protests, the Iraqi authorities have revived their programme of forcibly resettling Kurds, depopulating a 30km-wide "security zone" along the borders with Iran, Turkey and Syria.

No official figures are available, but it is estimated that well over 100,000 people – out of a total Iraqi Kurdish population of some 3.5m – have been moved this year alone.

It has been a ruthless and successful operation. Kurdish guerrillas have had their cross-border lines of communication severed, and their rural support networks eradicated. Thousands of border Kurds had already fled to Turkey and Iran to escape chemical attacks. Those who stayed have been moved from towns and inaccessible mountain hamlets to sprawling breeze-block suburbs in well-guarded valleys.

Foreign observers were excluded during the forced removals, but the Iraqi government – after the event – has attempted to repair the propaganda damage by inviting diplomats and journalists to Kurdistan and the rest of Iraq.

"We are sure we are going to win the war of the press by opening our doors," says Mr Salah al-Mukhtar, the Iraqi director general of information. Iraq says it has given grants of between 1,500 and 3,000 Iraqi dinars (\$4,500 to \$9,000 at official rates), and occasionally ID10,000 to resettled families.



Iraq's dismal human rights record dictates that victory in the propaganda war is a long way off, but the military grip on Kurdistan is undeniable. On the main road between Kirkuk and the north-eastern town of Sulaymaniyah, Iraqi troops and loyalist Kurdish militiamen are manning hilltop fortifications every few hundred yards. Last month the Government began a military campaign to push the guerrillas – the *peshmerga* – out of their remaining strongholds in the far north.

The Kurdish opponents of President Saddam Hussein, including Mr Masoud Barzani's Kurdish Democratic Party and Mr Jalal Talabani's Patriotic Union of Kurdistan, have been forced to bury their differences, adopt a united front and change their military tactics completely.

"We couldn't cope with such atrocious weapons," said Mr Barzani in London recently, referring to poison gas. "The situation is difficult but we haven't given up."

Instead of permanent bases in "liberated" territory and direct confrontations with the Iraqi army, the KDP says it is resorting to classical insurgency tactics involving small highly-trained units which will sabotage economic targets, such as dams. Previously the guerrillas were reluctant to risk Iraqi retaliation against innocent villagers or to damage infrastructure of possible benefit to the Kurdish people.

The Iraqi Government's declared aim is to achieve Kurdish autonomy without endangering the integrity of existing states, agreed that in the latest round of removals no Kurds had been shifted from their homes to areas outside the official Kurdish autonomous region. But both he and Western diplomats say that some villages which have been moved are outside the 30km-wide border security zone.

"I believe that this depopulation will continue and will affect other Kurdish areas, not just near the borders," says Mr Barzani. Some 4,000 Iraqi Kurdish villages, he says, have been destroyed since 1975, while thousands of southerners have been brought in to "Arabise" Kurdistan.

Officials in Baghdad and in Sulaymaniyah reject accusations of genocide, declare that Arabs have also been moved from border areas and insist that Kurds have been transferred to new settlements with better services – such as electricity – than their old homes.

"The policy of the Government is to gather the people attacked by (Iranian) missiles and put them in special villages with good facilities," says Mr Mohammed Amin Abbou, Sulaymaniyah's deputy governor.

Iraq's Kurdish policy is viewed with remarkable leniency by those Western embassies which believe that Kurdish exiles have exaggerated the Government's campaign of repression in the north.

Diplomats compare Iraq's recognition of the Kurdish identity and support for Kurdish schools to the ambivalence of Iran and the outright hostility of Turkey, where Kurds are not Kurds but "mountain Turks". They also point to the fact that Arab Iraqis who oppose the Government are treated as harshly as Kurds, and they emphasise the feeling of betrayal among Iraqis over the Kurdish guerrilla alliance with Iran during the Gulf war.

As Mr Abbou puts it: "Any person who did not support the Iraqi Government during the war is our enemy." According to Mr Hamdoun: "The treatment of those smaller groups that allied themselves with Iran during the war is not an indication of the treatment of the Kurds."

Iraq put its Kurdish credentials on display by flying in journalists to witness the recent elections for the autonomous region's legislative council, an event dismissed by Kurdish opposition groups as an affront to public opinion and hailed by the authorities as a beacon of democracy.

With courageous frankness, Sulaymaniyah's Kurdish fruit shop owners and pomegranate vendors told visitors that the elections were a waste of time. And a man from Halabja, where thousands of inhabitants were killed by poison gas in March 1988, said he would go back to his home – if he could.

Bhutto detains Sindi activist

THE Pakistan government of Benazir Bhutto has taken its first political detainee, placing veteran rights campaigner Mr G.M. Syed under house arrest, reports Christina Lamb.

Ms Bhutto's first act on becoming Prime Minister in December was to release all political prisoners. She and many of her ministers spent years in detention during martial law.

Police said Mr Syed was fleeing arrest after a demonstration last week at which 3,000 of his supporters took over Sukkur airport in Sind and burnt the Pakistani flag.

Mr Syed, a rights campaigner for the backward southern province of Sind, heads the Jeay Sindh party, which demands a separate Sindi homeland. Sind was the only area where Ms Bhutto's People's Party won a majority in November elections.

CONSERVATIVE CONFERENCE

Poll tax cushion to cost over £1bn

By Michael Cassell

THE Government yesterday bowed to intense pressure from its own MPs and supporters and announced that it is to spend £1bn before the next general election to cushion the impact of the poll tax when it is introduced in six months' time.

The decision was immediately attacked by the opposition Labour party as "an electoral bribe" and it did not satisfy some of the Tory backbenchers who have warned that marginal seats will be lost if supporters are forced to subsidise poll tax payers in high-spending, Labour-controlled local authorities.

The package, which will ultimately cost as much as £1.5bn, includes the scrapping, after one year, of the controversial safety net arrangements intended to help those people facing the highest poll tax bills.

With a difficult public spending round under way and with the Treasury seeking cuts in departmental cash bids, the cost of abandoning the scheme altogether has proved unacceptable. Major departments still to settle their bids with the Treasury include Health, Transport, Environment and Education.

As a result of yesterday's changes, people gaining under the transition from the domestic rating system will receive the full benefit from 1991-92 onwards. The Exchequer will consequently meet a total safety net contribution bill over the following three years of £685m.

The package also incorporates a three-year programme of transitional relief for individuals which will cost £300m in the first year and which could help to up to 6m people, including pensioners and the disabled. Providing local authorities do not exceed the standard spending levels set down in July, no one currently paying rates will be more than £3 a week worse off under the poll tax.

The decision was announced by Mr David Hunt, the Environment Minister, at the Conservative Party conference in Blackpool, where it was warmly welcomed. Delegates were generally supportive of the Government's poll tax plans but several speakers during a debate on the issue attacked the safety net arrangements as unfair and criticised the party leadership for failing to sell the policy effectively.

Some MPs, however, claimed that with some areas still expected to bail out high-spending councils, the party would suffer at next May's local elections.

Mr Chris Patten, the Environment Secretary, said last night that there would be no further changes to the poll tax arrangements. The announcement represented the terms and conditions upon which it would be introduced.

Draft law 'will set set green agenda'

By Philip Stephens, Political Editor

THE Government yesterday foreshadowed a radical shift to a more active and interventionist policy towards the environment as the Conservative Party conference in Blackpool put plans to enhance the "quality of life" in the forefront of its campaign to win the next general election.

Mr Chris Patten, Environment Secretary, pledged that by next year the Government would produce a draft law which would "set our environmental agenda for the rest of this century."

He insisted that the "Green bill" planned for the next session of parliament would represent only the start of a much broader programme in which the Government would play a central role in regulating and setting standards and environmental goals "on behalf of the community."

His speech was a decisive break with the aggressively free market approach adopted by his predecessor, Mr Nicholas Ridley.

Mr Patten made clear that much of the planned legislation would be based on a report produced earlier this year by a group of academics led by Mr David Pearce. That called for a radical shift in official thinking to measure much more closely the environmental cost of economic growth and to build in "pricing mechanisms" to limit pollution and encourage conservation of scarce resources.

The Government will establish a new cabinet committee under the chairmanship of Mrs Margaret Thatcher, the Prime Minister, to see how far those ideas can be built into the proposed law. Mr Patten's view is that it is now committed to a big initiative to draw together all of its policies to ensure that they are consistent with its environmental objectives.

The planned document may include proposals ranging from the provision of tax incentives for catalytic converters to reduce car exhaust emissions and regulations to ensure that within a decade half of the country's household waste is recycled to much more fundamental measures to protect the global environment.

Britain, he said, would work creatively to negotiate an international convention on climate change which eventually would include binding agreements on subjects such as energy and forestry.

Strikers could lose jobs under new code

By John Gapper, Labour Editor

PEOPLE taking part in unofficial strikes could be singled out for dismissal under proposals made yesterday by the Government. Unions would also lose immunities if they called official strikes in protest at such dismissals.

A policy discussion document published yesterday suggests that employers should no longer be prevented from selecting individuals for dismissal from among a group of unofficial strikers. They should also be allowed to rehire them.

Unions would be forced to repudiate or adopt officially wildcat action organised by shop stewards. They would also lose their immunities if they called strikes in support of unofficial strikes who were dismissed.

Proposals in the Green Paper are expected to form part of an Employment Bill to be introduced in the next session of parliament. The Bill will also include restrictions on the pre-entry closed shop and all forms of secondary action.

Mr Norman Fowler, Employment Secretary, said unofficial action tended to be "sudden, unpredictable and dangerous." The proposals would force unions to take responsibility for the actions of their shop stewards and unpaid officials.

Mr Fowler said he still wanted to draw up proposals to curb industrial action in essential services - possibly through "cooling-off" periods, but these would not be included in the next Employment Bill, the Government's sixth.

The proposal for limiting unofficial industrial action in part arose out of action on the London Underground earlier this year. Mr Fowler emphasised that the proposal would partly deal with outbreaks of action in essential services.

The proposal to allow selective dismissal of unofficial strikers is likely to be seen as an encouragement to managers to dismiss ringleaders.

The Green Paper does not include earlier suggestions that the ringleaders of unofficial action should be made responsible for their actions either by fines or being liable for civil damages.

Mr Norman Willis, general secretary of the Trades Union Congress said the public was "fed up with the Government's constant resort to union bashing" and the effect would be to drive labour grievances underground.

Thatcher's heirs in the wings

Philip Stephens watches the candidates for Premier edge forward

Among the hopeful: from the top left clockwise: Michael Heseltine, Kenneth Baker, John Major and Chris Patten.

THE media spotlight has stayed firmly on Mr Nigel Lawson but the Chancellor's problems with sterling and interest rates has obscured a perhaps more significant undercurrent in Blackpool this week. The Conservative party has begun to look consciously, if discreetly, beyond Mrs Margaret Thatcher.

Mr Kenneth Baker, the party chairman, said this week's conference would mark the start of the Government's fight to win the next general election. It has also signalled the beginning of an equally interesting contest between Mrs Thatcher's heirs apparent.

The manoeuvring so far has been gentle. There is no question of a coup against Mrs Thatcher before the election and the Prime Minister can expect her usual ecstatic reception when she closes the conference on Friday.

It is rather that there is a general expectation that, win or lose, she will retire soon afterwards. That leaves perhaps just three or four years before the Conservatives will choose their first new leader since 1975. The potential successors have little time to waste in establishing their credentials.

Mr Baker, Mr Michael Heseltine, the former defence secretary, Mr John Major, the Foreign Secretary, and Mr Christopher Patten, are the obvious front-runners. But Sir Geoffrey Howe also indicated yesterday that were the Prime Minister to leave earlier rather than later he still retains the hope of succeeding her.

In a lengthy speech on the Blackpool fringe Sir Geoffrey indicated that he planned to use his role as Deputy Prime Minister and leader of the House of Commons to provide his own detailed analysis of the policies the Government should be offering during the next decade.

Mr Baker himself was the first to stake out his claim in his opening remarks to the conference. Mrs Thatcher, he declared without a blush, was "entrusting to me the task of delivering her fourth successive election victory".

His audiences have been impressed. His conference address on Tuesday, an impassioned and witty attack on the Labour Party combined with a call for the Conservatives to keep their nerve, won a warm ovation and a gushing accolade from the Prime Minister herself.

It was she said: "The best chairman's speech that we have had". There was no hint of disapproval with his deliberate strategy of emphasising that henceforth the Conservatives would present themselves as a team and not as a "one-woman band".

His former Cabinet colleague Mr Michael Heseltine, however, will ensure that Mr Baker does not have a clear field. Denied a place on the conference platform, Mr Heseltine this week used a meeting of the Tory Reform Group to push forward the leadership campaign that he has been waging since he quit the cabinet in 1986 over the Westland affair.

Mr Heseltine, said by the opinion polls to be the voter's choice to succeed Mrs Thatcher, has worked tirelessly to build support among Conservative activists and backbench MPs. His strategy is to offer a distinctive approach from that of the present Government - capitalism on the West German or Japanese rather than the Thatcherite model.

This week he was seen to take a risk in overtly attacking the economic analysis presented by Mr Lawson. But his call for a much more active partnership between Government and the private sector in promoting a revival of industry, in strengthening research and development, clearly struck a chord with his audience.

More importantly Mr Heseltine is seen among the party faithful and among many of his Westminister colleagues as a vote-winner and as one MP put it, "that counts for everything".

If the Conservatives, however, feel that the challenges of the 1990s require them to "skip a generation", Mr Patten and Mr Major are the key contenders. Yesterday the newly-appointed Environment Secretary avoided a political "tub-thumping", but his conference speech clearly marked out his ambitions.

By committing Mrs Thatcher to the production by next year of a major strategic plan for the environment, Mr Patten has ensured that he will play a central role in shaping the Conservative response to the "quality of life" agenda expected to dominate politics in the 1990s.

Lawson to face an anxious audience

MR Nigel Lawson, the Chancellor of the Exchequer, has to restore his personal credibility and provide assurances about the Government's ability to deliver a sound economy in time for the next election when he faces an anxious conference audience today, our Political Staff write.

After Tuesday's broadside from Mr Michael Heseltine, the former Defence Secretary, who said the Chancellor could not simply ignore the consequences of the trade deficit, Mr Lawson was still under fire yesterday. Mr John Biffen, the former Leader of the Commons, claimed there was confusion over the Government's interest rate strategy.

It was, he claimed, "an absolute nonsense" to use domestic interest rates to try to prop up sterling. Like most other party members at Blackpool, however, he declined to call for his resignation.

Though there are deep-seated criticisms about Mr Lawson's performance so far, few party members appeared ready to demand he pay the ultimate price for inflicting such embarrassment on the Government at a particularly sensitive time. Most backed the high-interest-rate strategy but believed further increases would prove politically suicidal both for Mr Lawson and the party.

If the jury is still out in the Conservative Party, Mr Lawson has the chance today to plead the case for the defence. The verdict in the City, party and country will not be known until he has sat down.

UK NEWS

Depressed house prices 'until 1991'

By Andrew Taylor, Construction Correspondent

HOUSE PRICE inflation in Britain last month reached its lowest point for more three years as prices continued to tumble over wide areas of southern England, the Halifax Building Society, Britain's biggest, said yesterday.

It pointed out that last week's rise in interest rates would delay a recovery in the housing market and said that prices were unlikely to see any substantial improvement until after the middle of 1991.

The building society has forecast that prices nationally will increase on average by about 3 per cent this year. Prices, which have continued to rise in much of northern Britain, this year would offset falls in house prices in the south of the country.

It said prices in East Anglia had fallen on average by 11.3 per cent during the first nine months of this year. In the same period, prices in south east England had fallen by 6.3 per cent and by 4.7 per cent in south-west England.

House prices in Greater London had fallen on average by 4.9 per cent.

Prices across the country as a whole were about 9.5 per cent higher than during September last year. Halifax said this was the first time its house price index had achieved single figures since 1986.

At the end of last year prices nationally were rising at an annual rate of more than 34 per cent.

The slowdown is more apparent for new houses with builders, particularly in southern England offering substantial discounts to prospective buyers.

Prices of new houses nationally rose by only 4.6 per cent during the 12 months to the end of September. New house prices dropped by 2.1 per cent during September, said the Halifax.

In the third quarter of this year, prices in London, the home counties and Wessex fell on average by about 3 per cent to 4 per cent and in East Anglia by slightly less than 5 per cent. In the East and West Midlands, prices fell by about 1.5 per cent.

However, prices farther north are still increasing, but at a slower rate than earlier this year. In north-west England prices during the three months to the end September rose by 7.4 per cent. In Yorkshire-Humberside prices rose 4.5 per cent.

Scotland saw considerable rises during the third quarter, averaging 5 per cent, said the society.

● The Government should provide an extra £150m to enable housing associations to buy unsold homes from troubled private housebuilders, the National Federation of Housing Associations said last night.

"The money would provide an opportunity for housing associations to purchase these homes and use them to re-house some of the growing number of homeless people."

Iraqi pull-out quells Belfast arms fears

By Victor Mallet

THE BRITISH government yesterday welcomed the decision by an Iraqi-owned company to withdraw from a sophisticated composites plant in Belfast and sell its interest to Short Brothers.

Britain had expressed fears that the former Lear Fan factory would be used by Iraq to acquire expertise for its armaments industry, including the Condor 2 missile project.

"Those concerns are now allayed," a Foreign Office spokesman in London said. "We are pleased that Shorts have bought it."

Privately, Foreign Office officials are hoping that the publicity surrounding the Lear Fan deal will discourage Iraq from further attempts to acquire technology with possible military applications.

"Let's hope it's once bitten, twice shy," said one Whitehall official. "We hope it has cost them some money." the Northern Ireland Industrial Development Board withheld a £2.2m grant for the project on Foreign Office advice.

Shorts, the aircraft and missiles company now part of Bombardier of Montreal, has agreed to buy the 200,000 square feet facility together with equipment from SRC Composites for an undisclosed sum.

SRC Composites is jointly owned through a holding company by the Iraqi-owned Technology and Development Group (TDG) and SRC Engineering of Geneva, but the Iraqis put up most of the estimated £3m purchase cost.

Mr Michael Bull, SRC Composites Managing Director and a member of the Bull family which owns the Space Research group and has specialised in ballistics - accused the Foreign Office yesterday of being over-anxious about the dangers of technology transfer from the Belfast plant.

He said he and his associates had lost a very small amount of money. "It's very disappointing," he said from Brussels. "We recovered most of the funds we put in, but we lost a lot of time." No one from TDG was willing to comment yesterday.

The factory closed in 1985 when the Lear Fan aircraft project collapsed, despite £56m in government funding. It was bought by the SRC group and TDG in May this year and they had begun to clean up the plant. According to Mr Bull, Shorts have agreed to take on the seven employees of SRC Composites.

Trend towards entry to unlisted market

By Clare Pearson

THE first nine months of 1989 have seen a trend away from the official list towards the Unlisted Securities Market among companies coming to the stock market, according to Peat Marwick McLintock statistics on the new issues market published yesterday.

These show a decline in the proportion of new entrants to the main market, as well as fewer transfers from the USM to the official list. At the same time, a record number of companies listed on the main market have gone private.

The shift has come in the context of an overall drop in the number of companies joining both markets compared with the same period in 1988, with the total falling from 142 to 92.

The aggregate funds raised on the two markets has also fallen. Excluding this summer's £975m issue for Abbey National, the former building society, and last December's £2.5bn offer for British Steel, the comparative figures are £377m for the first nine months of 1989, against £1.26bn for all 1988.

While during the first nine months entrants to the official list fell to 40, down by nearly a half on the 79 recorded in the same period last year, entrants to the USM remained more stable at 52, against a comparable 63.

Mr Ray Mackie of PMM said: "It is possible that many companies are favouring the USM's lighter entry requirements and seeking earlier public listing than is possible with the main market."

The £165m offer for Hays, the business services group, launched yesterday will, however, boost the fourth quarter total for the official list.

In each of the first three quarters, USM new entrants outnumbered those joining the main market. In 1988, there were more flotations on the USM than on the main market during the first and the fourth quarters.

Before the 1987 stock market crash, 151 companies obtained a listing or quotation in the first three-quarters of that year.

PMM has recorded nine transfers from the USM to the main market in the first nine months, against 15 in 1988. Seven fully listed companies, including Charles Church, the construction and housebuilding concern, retailers Magnet and Gateway, and three engineering companies, went private.

Decoder upgrades fax for newsletters

By Raymond Snoddy

A BRITISH company claims to have found a way to turn the ordinary fax machine into a powerful publishing tool.

Mr Vince Waterson, a telecommunications consultant, has developed a decoder which enables information carried through data broadcasting to be printed out directly on fax machines.

The Faxcast Publishing System opens up the possibility of simultaneous delivery of everything from specialist newsletters and periodicals to internal corporate literature to any office or home that has a fax machine at about 30 per cent less than the cost of conventional methods.

By the end of last year there were between 600,000-700,000 faxs in the UK and more than 7.5m in the world.

Three working prototypes of the decoder have already been produced and tested using information carried by Air Call, the communications company which operates a specialist teletext service in a joint venture with Oracle, the ITV teletext company.

Mr Waterson said yesterday he expected to sign a licensing agreement this month with a large British telecommunications company for the manufacture of the decoders which will probably cost around £20 a month to rent.

His company Data Broadcast Services believes the system could even be used for the instantaneous delivery of newspapers.

A publication prepared on a specially adapted desk top publishing system would be transferred electronically to the DBS Data Collection Centre and from there broadcast electronically throughout the country.

Information can be individually addressed so that only those who have subscribed to a periodical or are entitled to receive a memo get a copy.

Companies which have expressed an interest in using the technology include major banks, the business information section of the Financial Times and Glenigan, a specialist information company in the construction sector

UK employers urge EMS membership if inflation falls

By Alan Pike

STERLING should become part of the European Monetary System's exchange rate mechanism as soon as UK inflation is on a clear downward trend, Confederation of British Industry leaders said yesterday.

Members of the CBI council, the UK employers' organisation, approved a paper from their economic and financial policy committee which declared that there would be no further reasons for delaying entry to EMS once UK inflation began coming down. This should be the case "early next year, if not before."

Entry should not await the abolition of exchange controls, completion of the single European market or the establishment of an appropriate exchange rate, said the CBI. To reap the full benefits of stability within the system, the UK should take sterling into the exchange rate mechanism with a fluctuation band of plus or minus 2.25 per cent, and should seek to avoid frequent realignments.

At the same time as adding its voice to calls for early EMS entry, the CBI yesterday renewed its opposition to last week's rise in UK interest rates. The confederation has until now supported the use of interest rates to squeeze excess demand out of the economy, but did not regard last week's increase in base rates to 15 per cent as appropriate. Mr John Banham, director general, said the CBI agreed with the Prime Minister that "you can't buck the markets."

Mr Banham said he hoped Mr Nigel Lawson, the Chancellor of the Exchequer, would emphasise the essential strength of the UK economy when he addressed the Conservative Party conference in Blackpool today.

Monopoly ruling against appliance manufacturer

By David Churchill, Leisure Industries Correspondent

THE Monopolies and Mergers Commission ruled yesterday that Black and Decker, the electrical appliance maker, was guilty of seeking to impose resale price maintenance by refusing to supply retailers which sold its products as loss leaders – priced below cost to attract customers.

The commission, in a report after a five-month investigation, found that the company's refusal to supply certain retailers was anti-competitive and against the public interest.

The report was accepted in full last night by Mr Nicholas Ridley, the Trade and Industry Secretary. He asked Sir Gordon Borrie, director general of fair trading, to seek assurances from Black and Decker that it would stop the practice.

Sir Gordon will also seek an assurance from Black and Decker that, if it believes a retailer is selling its goods as loss leaders, it will supply the Office of Fair Trading with details before seeking to take any further action.

Black and Decker had argued before the commission that it could legitimately refuse to supply retailers selling its products as loss leaders under section 13 of the Resale Prices Act 1976.

The Act enables companies to prevent their products being sold as loss leaders provided that such efforts do not impose minimum resale prices for all retailers.

The commission took the view that Black and Decker's activities imposed a general degree of resale price maintenance. It said section 13 "is only a limited exception to the general prohibition on manufacturers attempting to set individual retail prices."

Black and Decker said last night it believed that the commission had confirmed that "we can continue to enjoy the protection of section 13 of the Resale Prices Act 1976 where we have reasonable cause to believe, in individual cases, loss leading has taken place on our products."

In Brief

University unveils student fee scheme

SOUTHAMPTON University has become the first in the UK to announce plans for a large increase in student numbers to be funded partly by charging tuition fees. The university is also considering extending the academic year into the summer vacation in order to introduce a two-year degree allowing an increase in total student numbers.

Silica plant venture

THE US companies Dow Corning and Cabot Corporation are to join forces in spending £48m on the first plant to produce fumed silica in Britain. Dow Corning will spend £14m on its Barry, South Glamorgan, site to produce raw materials for a new £34m Cabot plant to be built nearby.

Councils admit error

THE London borough council of Hammersmith and Fulham acknowledged in the High Court it acted unlawfully when it entered into interest rate swap deals that exposed ratepayers to losses which may run into hundreds of millions of pounds.

Casino project dropped

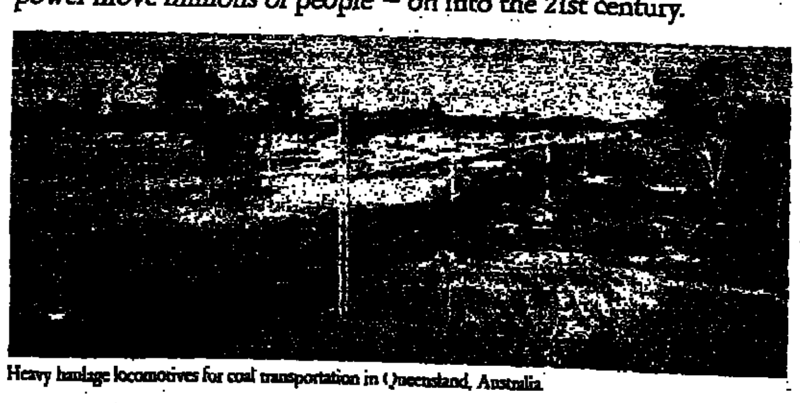
LOEWS HOTEL group has abandoned plans to build a £16.2m hotel and casino at the Albert Dock in Liverpool. The project was expected to attract high-spending American tourists.

Zeebrugge case date

THE CASE involving P & O European Ferries in charges of corporate manslaughter over the Zeebrugge disaster was adjourned until December.

Bank executive resigns

COUNTY NatWest, the investment banking arm of National Westminster Bank, is to lose another senior member of its executive staff. Ms Christine Downton, chief executive of County NatWest Investment Management, has resigned for personal reasons but will remain an external consultant.



FT LAW REPORTS

US court decisions slow down the Reagan-Bush anti-trust revolution

By Robert Skitol and Lloyd Ziff

In the first part of this article (FT Business Law, October 5 1989) we reviewed the results of nine litigated US Government challenges to mergers on anti-trust grounds from 1987 to the present. Here we review 12 litigated anti-trust challenges by private parties during that same period.

Eleven of those challengers were either actual or prospective competitors in the affected markets and in three cases also the targets of hostile tender offers. The remaining private suit was brought on behalf of an individual seeking to represent a class of consumers threatened by mergers in the soft drinks industry.

The consumer suit, originally brought to challenge the horizontal mergers of Coke/Dr Pepper and Pepsi/Seven-Up, switched in the wake of the cancellation of those mergers into a challenge to Coke's and Pepsi's vertical acquisitions of soft drink bottlers.

The district court implicitly endorsed consumer standing to challenge the prior horizontal mergers but denied standing to challenge the vertical bottler acquisitions on the ground that the plaintiff failed to present credible evidence of threatened harm to consumer interest.[1]

The implicit endorsement of consumer standing with respect to horizontal mergers appears to be an open invitation to the plaintiffs' anti-trust bar.

As indicated above, 11 of the challenges were by competitors, three of which were targets of hostile tender offers. Of the eight non-target challengers, four ended with court rulings that the plaintiffs had failed to establish "anti-trust injury" and therefore "standing" under the so-called *Cargill* test (emanating from a 1986 Supreme Court decision requiring a private challenger to a merger to demonstrate that the merger threatens it with injury directly related to the merger's alleged anti-competitive effects).

In three cases the courts ruled that the plaintiffs met the *Cargill* requirements *and* that the mergers were presumptively unlawful. In the remaining one, the court appears to have ignored *Cargill* altogether. It went directly to consideration of the merits and then found no violation.

Of the three targets in hostile tenders offers, two were denied and one was granted standing to proceed. Thus, of the 11 competitor suits as a group, plaintiffs were granted standing in five and denied standing in six.[2]

With some effort, one could reconcile all or most of these holdings on the premise that each one involved a relatively unique set of facts, some of which met the *Cargill* requirements while others did not.

But the pervading tone of some is hostility to competitor or target suits generally and serious acceptance of *Cargill* barriers to them, while the pervading tone of others is receptiveness to such suits generally and treatment of the *Cargill* test as being relatively easy to pass.

One result of this disparity is that we now have three recent celebrated instances of mergers cleared by the FTC but then foiled in private suits:

● The Commission approved a merger between two major sellers of snack cakes and pies apparently on the basis that the relevant market included biscuits, sweets, and sweet snacks generally throughout the US. Shortly after the merger was completed, a competitor brought an action, obtained an immediate "hold-separate" order and thereafter obtained a preliminary injunction on findings that the merger was a probable violation of not only section 7 but also section 2 of the Sherman Act in markets defined as snack cakes and pies in Boston, New York and New England.[3]

● The Commission cleared a merger between two herbal tea manufacturers that would have given the combined entity 84 per cent of the national herbal tea market apparently under the view that the relevant market included "all tea" (if not broader) and was characterised by ease of entry. A competitor sued for a preliminary injunction; the district court granted the defendants' motion for summary judgment based on a finding that the plaintiff could not show injury and standing as *Cargill* required.

After oral argument at the Second Circuit, defendants moved to dismiss the appeal as moot in light of the cancellation of the transaction and its replacement by a management buyout of the business in question. The Second Circuit held that (a) the case was not moot because it was not certain that the defendants would not attempt to acquire the same business at some future time; and (b) on the assumption the relevant market was in fact limited to herbal tea, the overwhelming combined market share warranted a presumption not only of a section 7 violation but also of anti-trust injury and standing on the plaintiff's part.[4]

● The Commission cleared a hostile tender offer by foreign gold-mining interests (Minorco) seeking to acquire a foreign-based competitor with gold-mining interests in the US (Consolidated Gold Fields). Completion would have given the combined entity control over 32 per cent of free-world, newly-mined gold; the Commission cleared it apparently on the view that the relevant market included gold in communist countries and scrap as well as newly-mined product (the "gold is gold" defence).

The target thereafter together with another gold producer that was 49-per cent owned by the target (Newmont) sought a preliminary injunction. The district court denied standing to the target, granted standing to the 49-per cent owned plaintiff, found the market limited to free-world, newly-mined gold and issued a preliminary injunction.

The Second Circuit reversed the denial of standing to the target, broadly holding that "the anti-trust laws ensure the right to compete" and here the target faced anti-trust injury (sufficient under *Cargill*) from loss of that right through the loss of its independence. The Second circuit affirmed the grant of standing to the 49-percent affiliate and affirmed the issuance of a preliminary injunction.[5]

Officials of the Reagan anti-trust agencies used every possible opportunity in speeches and otherwise to debunk what have been characterised as the populist "anti-merger" Supreme Court decisions of the 1960s.

Indeed a significant part of the Reagan anti-trust agenda was to move law and policy away from those precedents and toward more "sophisticated" (meaning more permissive) analysis of the Chicago School persuasion. Review of the decisions of the past 30 months suggests this part of the Reagan agenda was less than successful.

Virtually all of these most recent decisions that reached the merits of the mergers under examination (apart from rulings on injury and standing) took as their starting point and theme the Supreme Court's 1963 *Philadelphia National Bank* rule of "presumptive" illegality as to any merger creating a firm possessing an "undue" - 30 per cent or more - share of an already concentrated market.

Most of them also cited with approval and relied to some extent on *Brown Shoe* (1962), in which the Supreme Court established rather lenient (some would say sloppy and unprincipled) standards for market definition.

Perhaps most notable is that both the Ninth Circuit in the supermarket case (discussed in our prior article) and the district court in the Gold Fields case cited *Von's Grocery* (1966), the case Chicago Schoolers consider to have been the high water mark of excess. As Judge Posner showed in the industrial dry corn case, even the most free-market-oriented among President Reagan's appointments to the courts follow precedent, old and new.

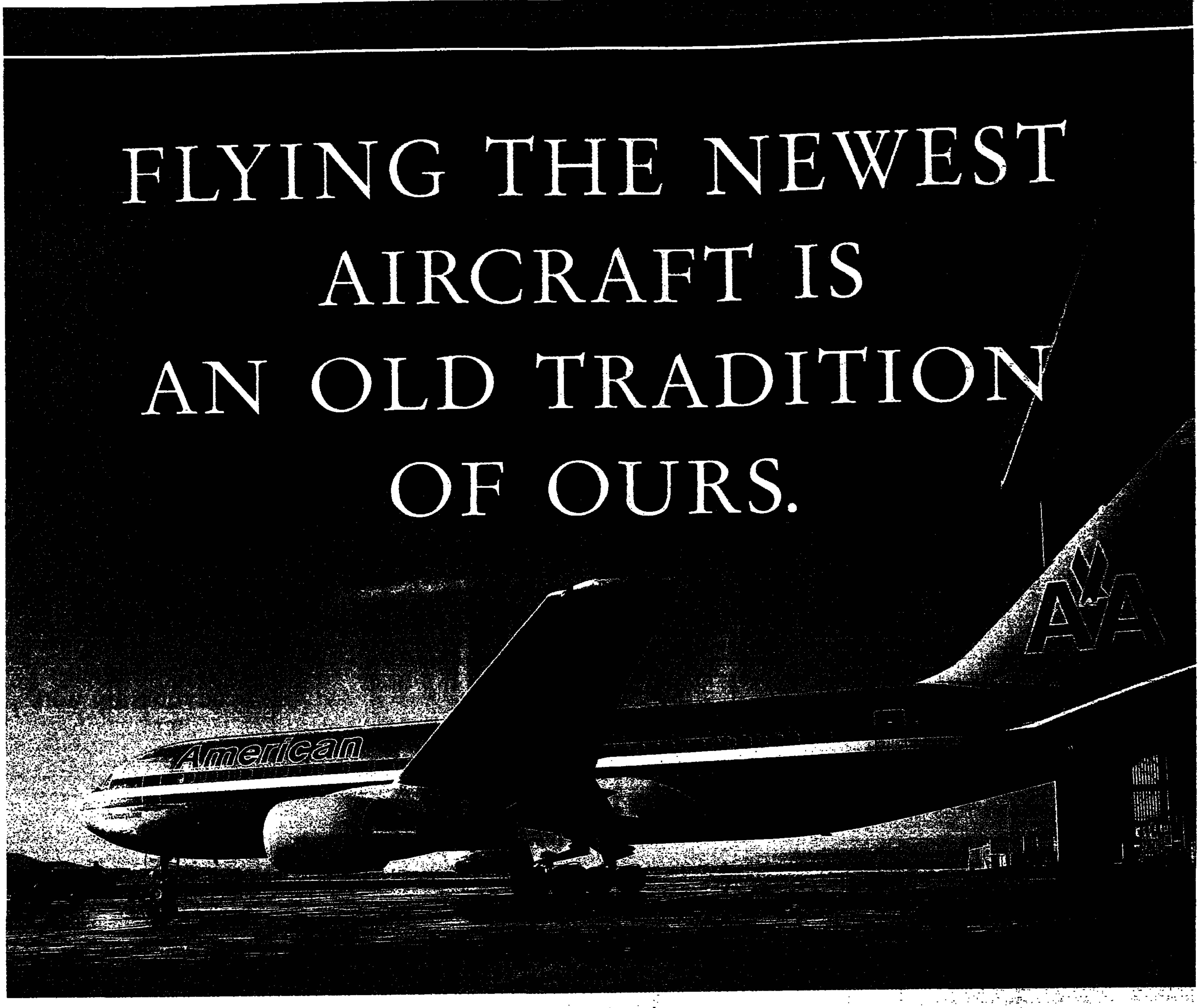
The fundamental reality is that, while judge-made merger law certainly has evolved incrementally over the years, today's decisions still pay attention to *the leading cases of decades ago.*

Given the continued vitality of private suits in this area and the commitment of state attorneys general to an enforcement role as well, these older cases remain highly relevant to the defensibility (or lack thereof) of challenged transactions.

This seems particularly true in the case of transactions challenged after clearance by the federal enforcement authorities.

[1] *O'Neill v Coca-Cola, 669 F Supp 217*
[2] *Standing was granted in the following cases: Bigelow v Unilever, 867 F 2d 102; Consolidated Gold Fields v Minorco, 871 F 2d 252; Cable Holdings v Home Video, 825 F 2d 1559; Remington v North American Philips, (July 10, 1989 modification of ruling at 1989-1 Trade Cas 68,534); Tasty Baking v Ralston Purina, 653 F Supp 1250. Standing was denied in the following cases: Alberta Gas v DuPont, 826 F 2d 1235; Phototron v Kodak, 842 F 2d 95; Axis v Micafil, 870 F 2d 1105; Investment Systems v Translogic, 702 F Supp 1677; Burlington v Edelman, 666 F Supp 799; Burnup & Sims v Posner, 688 F Supp 1532)*
[3] *Tasty Baking v Ralston Purina, above*
[4] *Bigelow v Unilever, above*
[5] *Consolidated Gold Fields v Minorco, above*

Mr Skitol is a partner in the Washington Office, and Mr Ziff is a partner in the Philadelphia Office of the US law firm of Pepper, Hamilton & Scheetz.



In 1936, we at American Airlines placed one of our regular orders for new aircraft.

Only, this time it was an order with a difference.

From nose to tail, wing tip to wing tip, the plane was to be built to our own specifications.

The legendary DC-3 was born.

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(Recently, in fact, we placed one of the heftiest aircraft orders in aviation history: £4 billion worth.)

For reservations, telephone your travel agent. Or, of course, contact us yourself at your nearest American Airlines office.

Meanwhile, we look forward to welcoming you aboard the newest Transatlantic fleet serving all of 13 European cities.

And getting newer by the day.

After all, we have a reputation to protect. One old enough to be called a tradition.

AmericanAirlines

Something special in the air.

UK NEWS — THE TRADE DEFICIT

Producers fail to meet demands of consumers

The deterioration in Britain's trade position with the rest of the world is seen, at one extreme, as a serious structural problem; at the other, as benign and self-correcting. Neither policymakers nor economists can agree on the cause. FT correspondents report on what lies behind the deficit.

THERE is no agreement among policymakers and economists about the seriousness of Britain's current account deficit. At one extreme, Professor Wynne Godley and Dr Ken Coutts of Cambridge University regard the deficit as "a strategic predicament of staggering magnitude."

At the other, Mr Nigel Lawson, the Chancellor, argues that the trade shortfall is not, in itself, a cause for concern. In so far as it reflects imports of capital goods, it is benign and self-correcting; in so far as it reflects excessive growth of domestic demand, it can be curbed by higher interest rates. Inflation remains the real dragon: as and when this is squeezed out of the system, the balance of payments pressures will ease.

Critics note that every significant expansion of domestic demand in the post-war era has led to a balance of payments crisis followed by fiscal and monetary austerity. The fact that an expansion of demand sufficient to get unemployment below 2m has led to a current account deficit running at an annual rate of £20bn, or 4 per cent of gross domestic product, is regarded as proof that a decade of Thatcher government has not succeeded in radically improving the supply side of Britain's economy.

Central to the Treasury argument is the claim that this deficit is quite unlike its predecessors. In the first place, it is not accompanied by a budget deficit; it therefore reflects the rational decisions of private entrepreneurs and consumers rather than the profligacy of the public sector.

Moreover, the deficit has arisen during an era of capital mobility comparable only to the pre-1914 Gold Standard years. In such an environment, there is no reason why countries should not borrow abroad in order to bridge a temporary shortfall of domestic savings, with the increase in overseas liabilities being more than offset by the foreign assets accumulated during the years of North Sea plenty.

Many economists regard the existence of a budget surplus as of dubious significance. It has no bearing on Britain's ability to find the resources to service overseas debts. North Sea assets likewise provide little comfort because they could not be liquidated quickly in the event of a withdrawal of the short-term "hot money" flows that are keeping sterling afloat.

In any case, the net foreign asset position will rapidly deteriorate if the current account deficit is not brought under control.

Capital is certainly far more mobile today than in the 1960s or 1970s. But the analogy with the Gold Standard years is somewhat forced. Exchange rates are not, as then, irrevocably fixed. And the countries relying on overseas capital then were typically in an early stage of development. Borrowing made sense for them because they could expect to earn a higher return on capital than more advanced economies and thus repay debts with relative ease.

Britain's present deficit does not appear to fall into this category. First, the shortfall on capital goods is a relatively small portion of the total deficit.

Most of the overseas borrowing has been used to finance consumption. Secondly, the current account deficit is not offset by a healthy long-term capital account - as it would be if the trade shortfall primarily reflected the confidence of overseas investors.

Some companies, such as Nissan, have invested heavily in the UK. But Dr Mica Panic, a former chief economist at the National Economic Development Office, points out that the net deficit on long-term foreign investment was equivalent to 2.8 per cent of GDP in 1988.

The balance of payments is thus being propped up by short-term inflows attracted by exceptionally high UK interest rates. That makes Britain vulnerable to sudden changes of sentiment in the financial markets.

But what of Mr Lawson's claim that the deficit is mainly a reflection of a temporary surge in domestic demand? Critics certainly do not accept that if demand is curbed, the UK's problems will be solved. Writing recently in Political Quarterly, Professor Godley and Dr Coutts drew attention to the prolonged deterioration in the trading performance of manufacturing industry. Since 1963, imports of manufactures as a share of gross domestic product have risen at a trend rate of 6 per cent a year. But exports of manufactures as a share of GDP have grown at only 2 per cent.

For many years, the long-term deterioration in manufacturing trade was masked by the buoyancy of other sectors.

Between 1976 and 1985, the oil balance improved by the equivalent of 6½ per cent of GDP.

But in the late 1980s there has been nothing to compensate for industrial weakness: a rising shortfall on manufacturing trade has translated directly into a rising current account deficit.

In terms of production and investment, manufacturing industry has staged a partial recovery since the early 1980s. Profitability is much improved. The problem, argues Dr John Wells, another Cambridge economist, is that manufacturing has not grown significantly faster than the economy as a whole. As a result, the big loss in manufacturing's share of output sustained during the 1979/81 recession has not been made good.

On this view, a significant portion of Britain's trade deficit is deeply structural in character.

It reflects the fact that the composition of output in the economy bears little resemblance to that of demand. In the last decade, production and investment have become heavily skewed towards non-traded goods, yet consumers' appetite for traded goods - especially foreign manufactures - has grown ever more intense.

In the mid-1980s, ministers argued that trade in services would compensate for manufacturing's weakness. But this has not happened.

International comparisons appear to support the view that the UK's industrial base is too small for comfort. Manufacturing accounts for under 22 per cent of GDP in Britain compared with 29 per cent and 33 per cent respectively in Japan and West Germany, two countries with very strong current accounts.

In the immediate post-war decades, Britain solved its trade problems partly by growing more slowly than most other advanced economies. This curbed demand for imports.

During the 1980s, the Thatcher Government has striven to reverse the UK's relative decline. But the attempt to keep pace with stronger economies such as West Germany and Japan seems only to have exposed the underlying weakness of the traded goods sector.

Looked at this way, the trade deficit is alarming not because it cannot be reduced (if necessary by a sharp recession) but because it suggests that the rate of growth compatible with balance of payments equilibrium in the longer term is very much slower than that enjoyed in the recent past.

Prof Godley and Dr Coutts argue that sustained growth of even 2.5 per cent a year (if permitted by financial markets) would result in a further rapid deterioration in the current account deficit, perhaps to £40 or £50bn a year. These may look absurd numbers. But in 1986, Prof Godley correctly predicted a £20bn deficit by the end of the 1980s.

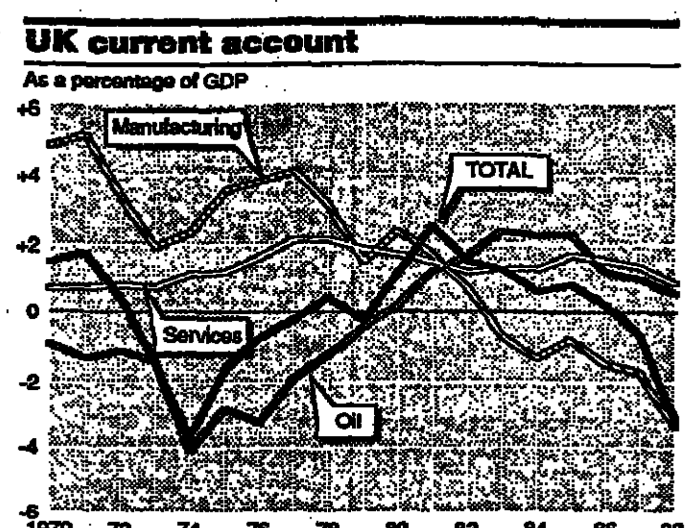
In the short-term, most economists accept that a period of very subdued growth, if not recession, will be necessary to bring the living standards of the British people into line with their capacity to export goods and services.

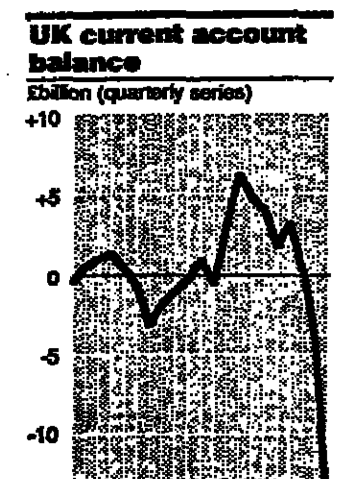
But there is much less agreement about the longer term outlook.

To be optimistic you have to believe that deregulation and liberalisation in the 1980s have strengthened the UK's supply-side even if the benefits are temporarily obscured by macroeconomic mistakes. You have to argue that the trade deficit reflects short rather than long term trends. You have to take the view that the relative size of a country's manufacturing base is not significant.

Pessimists will beg to differ on all three points.

Michael Prowse





INVISIBLES

Services have been success story of the 1980s

"I must confess I do not understand the argument... that a pound earned by providing a service is not as valuable as a pound earned by producing a manufactured good...

"If it turns out that we are relatively more efficient in world terms at producing services than at producing goods, then our national interest lies in a surplus on services and a deficit on goods." – Mr Nigel Lawson, Chancellor, to the House of Lords committee on overseas trade, May 1985.

WHEN Mr Lawson spoke those words Britain was in its fifth year when its earnings from selling services abroad exceeded those from selling goods.

From the Second World War to 1980 Britain had always exported more goods than services. In 1980 exports of services, at £41.2bn, pipped manufactures (£41.1bn) at the post. By 1988, exports of services exceeded goods by £6.7bn.

"Services" is a catch-all for revenue earned from various endeavours which do not produce tangible products. Also known as invisible trade, it includes transport, travel, financial services, as well as the interest, profits and dividends (IPD) earned on Britain's overseas assets.

Along with trade in goods it makes up the current account of the balance of payments. Britain had a physical trade deficit of £20.8bn in 1988, but a current account deficit of £14.6bn after accounting for a £6.2bn invisible trade surplus.

The story of Britain's trade in services this decade has been one largely of success. It is the one area of British trade where, until recently, it was possible to see steady growth.

The abolition of exchange controls in 1979 led to explosive growth in Britain's net overseas assets. At the end of 1988 Britain had net assets of £94bn, second only to Japan. The growth in those net assets has been largely behind the rapid increase in IPD earnings throughout the 1980s, from net income of £764m in 1978 to £6.5bn at the end of last year.

Similarly, the large-scale deregulation of the financial system in Britain at the beginning of the decade has boosted the City of London's contribution to the current account. Net earnings from trade in financial services have risen three-fold since 1978.

If the picture is one of growth over the decade, the trend is less encouraging in recent years. Growth in net income from financial services appears to have peaked in 1987 and net IPD income in 1986, while the transport, travel and tourism sectors have fallen into sharp deficit.

The latter two are volatile, but the trend in IPD is worrying. A current account deficit is, as Mr Lawson says, readily financeable.

However, it is financeable only at a price; and that price is the interest rate.

The financing of the current account, mostly short-term deposits in the banking system, shows up in the balance of payments as a capital item. The servicing of that investment is a current item. With overseas sterling deposits amounting to £67.9bn at the end of June the interest cost is substantial.

High interest rates are being used to cool the domestic economy and prop up the exchange rate. Paradoxically, the current account is being made the poorer.

Simon Holberton

IMPORT/EXPORT

Machinery and transport dominate

FIGURES for UK imports and exports last year show that Britain's visible trade with the world is still dominated by one sector: manufactured machinery and transport equipment.

It accounts for nearly 40 per cent of all Britain's exports and imports and it has the largest and fastest growing deficit. Last year, the deficit of manufactured machinery and transport was £8.2bn, more than double the 1987 figure.

The main component in the sector is the motor industry. The deficit on cars and trucks last year jumped 53 per cent to a record £5.2bn, making up 30 per cent of the total UK visible trade deficit in 1988. Based on the figures for the first quarter this year, the deficit in 1989 is likely to be nearer £7bn. Office and data processing equipment, electrical appliances and general industry and power generating machinery are part of this very large sector, and they too have been imported heavily in recent years.

However, it is in domestic electronic goods, such as hi-fi equipment, video recorders, televisions and all forms of kitchen and general household equipment, that imports have been rising fastest over exports.

This is a clear indication of the strength of the recent consumer boom and why the UK trade figures deteriorated so rapidly last year.

The one area where exports have been growing faster than imports is in office and computer equipment, but the trend here has been improving too slowly to affect the overall sector deficit.

Another large chunk of the visible trade deficit is made up of miscellaneous manufactured goods, which includes defence equipment (£1bn deficit), clothing and footwear (£2.4bn deficit), and furniture (£611m deficit). A rare British success story was with professional and scientific equipment, which last year enjoyed a surplus of more than £500m.

Britain has always imported large amounts of raw materials such as rubber, paper, textile fibres and wood, much for use in construction and house-building. However, these materials do not appear to be contributing greatly to the export of goods made in Britain. Last year even greater amounts of manufactured rubber, paper, wood and textile goods were bought from abroad than exported by British industry.

Food, livestock and commodities were in deficit by £5.5bn last year, up from £5bn in 1987. In contrast, Britain exported more beverages and tobacco last year (£2.1bn) than it imported (£1.5bn).

North Sea oil made a strong contribution, but its share has fallen since the output peak of the mid-1980s. Chemicals and related products were strong. Large multinational companies such as ICI contributed to a surplus of more than £2bn last year.

The European Community accounts for more than half of both exports and imports, and 60 per cent of last year's £24.9bn manufacturing deficit came from trading with the EC. The most dramatic deterioration, though, was in Britain's trade with non-EC Western Europe where imports of £13.5bn were almost double exports.

Britain's healthiest trade balance was with North America. Exports to the US and Canada last year were £12.5bn, just short of the £12.9bn imports.

Patrick Harverson

Main sources for consumer goods

Cars	West Germany, France, Japan
Food	EC
Furniture, carpets, linen, curtains, other furnishing materials	EC, East Germany, India, Yugoslavia, Sweden, China, Nepal, Pakistan, Turkey
Fridges, freezers, dishwashers	Italy, West Germany, Denmark
Electric irons	West Germany, Singapore
Electric cookers, ovens, oven rings	Italy, South Korea, West Germany
Washing machines, washer dryers	EC
Drying machines	Italy
Vacuum cleaners	France, Ireland
Colour TVs, video recorders, record players, decks, radios	Japan, EC, Hong Kong, Singapore, Taiwan, Finland, South Korea, Malaysia, Brazil

MANUFACTURING

Poor quality of goods may be to blame

WHAT lies behind the disappointing trade performance of manufacturing industry?

Macroeconomic policies, such as the decision to allow the real trade weighted exchange rate to rise by 50 per cent between 1979 and 1981, have certainly played a significant role during the 1980s. Manufacturers have been unable to make good the share of national output they lost during those years.

But this is only to scrape at the surface of the malaise. Treasury ministers were not responsible for the collapse of the British motor industry in the 1970s. Yet today road vehicles account for a quarter of the total trade deficit. Nor do their decisions account for specific weaknesses in important sectors such as textiles and consumer electronics.

The poor performance of manufacturing is a long-term phenomenon: the rot may have set in during the middle of the 19th century. But in recent decades, the relative decline has seemed to accelerate. In the past 25 years, manufactured exports have consistently lagged behind imports. These trends imply a deep-seated failure of British entrepreneurship.

In a recent Employment Institute report, Dr Christine Greenhalgh and Dr Mary Gregory of Oxford University reject many conventional explanations for manufacturing's poor performance.

Taking a long-term perspective, they argue that price competitiveness, shortages of capital and lack of demand have not been important factors. Poor product quality, in their view, has been the root cause of recurrent trade deficits and *insufficient jobs.*

"Industry simply hasn't been producing enough products which people want to buy." But why?

Possible explanations include the UK's failure to innovate and the shortcomings of British education and training. Between 1967 and 1983, industrially-funded research and development spending grew at an annual rate of about 4 per cent in the US, 6 per cent in France and West Germany, and 11 per cent in Japan. In Britain, corporate spending on R&D grew at just over 1 per cent a year.

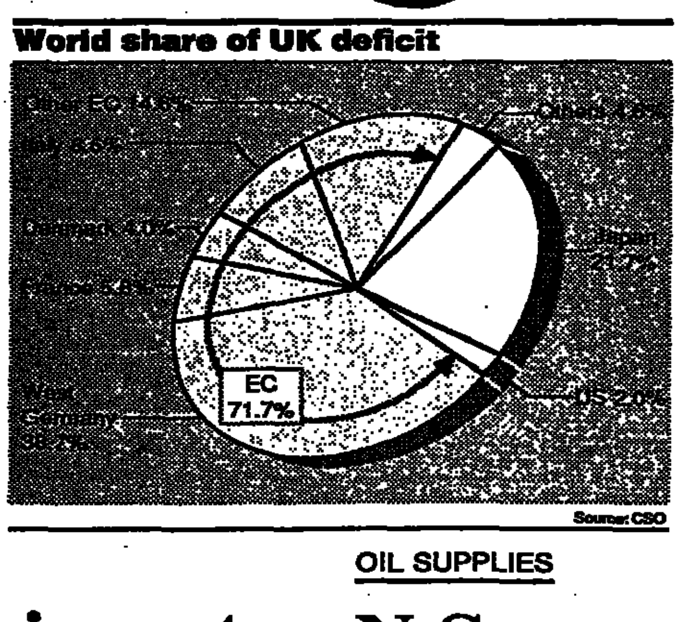
The weakness of British education affects corporate efficiency at all levels. Few senior managers have business qualifications and many dropped science and maths at 14. They are therefore often poorly placed to make strategic decisions.

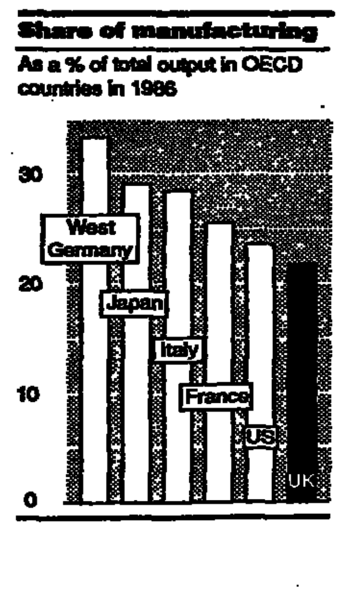
On the shop floor, workers *lack the technical expertise of* their counterparts abroad. Japan and France provide effective school-based vocational education. West Germany relies on an extensive network of industrial apprenticeships. But in Britain neither schools nor industry provide the rigorous training required.

Cultural attitudes may be the most potent factor. In the past century able Britons have not wanted to work in manufacturing industry. The top Japanese graduate joins Sony. In the UK, the professions, the City, the Civil Service and even the media have exerted a stronger pull.

The Thatcher decade seems to have done little to increase the appeal of productive industry or of occupations such as engineering. Yet, unless manufacturing attracts a larger share of the most talented graduates, it seems unlikely to recapture the lost ground.

Michael Prowse





INVESTMENT

Capital spending rise appears to have little impact

TO WHAT extent is there a benign element in the trade deficit? Is a substantial chunk of it caused by capital reinvestment that will result in lower cost production from better-equipped British factories?

Ministers offer this argument and it has been taken up by the Confederation of British Industry. Mr John Banham, CBI director general, says that recent rises in the deficit were virtually all to do with industrial reinvestment after years of neglect.

There certainly is a benign element because of factories re-equipping, but it appears to have a relatively small influence on the trade deficit. It is a mistake to equate trade in capital goods with factory reinvestment.

Also, the UK's recent surge in factory investment is more muted than in Japan, West Germany and Italy (the Italian market for machine tools is almost twice as large as that in the UK and in West Germany it is more than three times larger).

The UK *has* been spending more on capital investment. The rise in indices for imports of capital goods between the third quarter last year and the June to August period this year was 17 per cent.

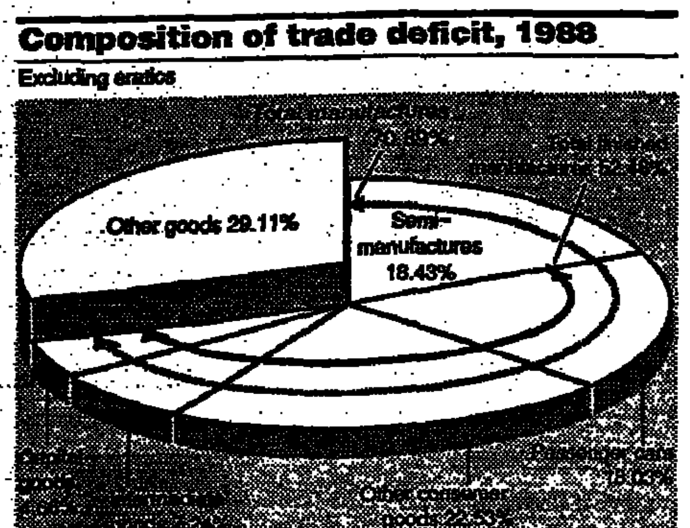
There is a *deficit* – a growing one – in items which fall within the government classification of capital goods. The UK had a large surplus in these goods in 1981. The surplus disappeared in the following three years.

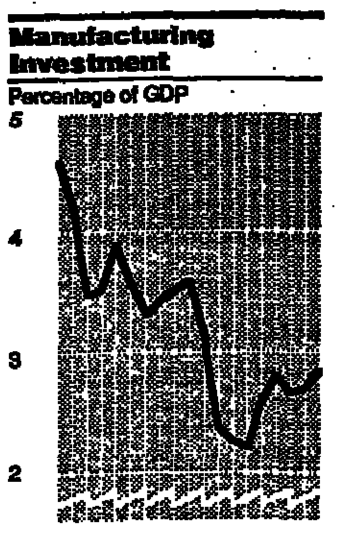
By 1985, the UK was in deficit in capital goods. The deficit was £1.15bn in 1987 and £1.2bn in 1988. This year it has reached £1.3bn in the first eight months.

Most British manufacturing industries are undoubtedly importing a higher proportion of foreign-made machinery, either because British suppliers are overloaded or because *they do not provide* the required technology.

Nevertheless, the capital goods deficit is still small within the total visible trade *deficit. The UK remains* a large exporter and importer of capital goods.

Nick Garnett





OIL SUPPLIES

N Sea saviour grows anaemic

OIL EXPORTS, once hailed as the mighty saviour of the UK trade balance in the 1980s, have turned anaemic this year.

In the first eight months of the year, crude oil trade generated a net surplus of £662m. This compares to £2.18bn in the same period of 1988, while in the whole *of last year oil* trade receipts were the lowest since 1980 when the UK became self-sufficient in oil. The 1988 trade surplus was *£2.79bn compared with the* 1985 peak of £8.10bn.

The steep decline in oil trade revenues this year has nothing to do with the oil price, which is *significantly higher than last* year, but with a series of accidents, equipment failures, and maintenance problems that have cut sharply the volume of North *Sea* production.

Production this year is expected to average only 1.89m barrels a day (b/d), according to Mr David Black of County Natwest Woodmac, compared with 2.11m b/d last year, and a peak production of 2.64m b/d.

Energy Department statistics show that UK crude oil production fell by 29.3 per cent from May to July compared with the previous year, wiping out most of Britain's exportable surplus. UK *consumption* in recent years, about 1.6m barrels a day, has been roughly two-thirds of domestic output.

A drop in production has a *particularly harsh impact on* export revenue. A 10 per cent fall in production can lead to a 30 per cent drop in exports. Production next year is expected *to rise to* 2.4m b/d, (following the output cut in July 1987 after the Piper Alpha disaster). Beyond that, production is expected to drift off but then *pull back up to* around 2.4m b/d by 1995, according to County Natwest Woodmac.

The Petroleum Services Department of James Capel, the London broker, has a similar projection with a somewhat lower second peak. Both scenarios could result in another export revenue windfall for Britain because many analysts expect oil prices to rise substantially by then.

The picture becomes murky *after that, but Britain's oil* self-sufficiency would in any case be maintained until nearly the end of the century.

The UK Offshore Operator's *Association is more optimistic.* Its projections are based on a poll of its members and computer modelling of potential discoveries based on the experience at other mature oil basins around the world.

The association sees no second output peak in 1995; it sees a more gradual fall in production which could assure self-sufficiency into the next century.

Steven Butler

Bruce Andrews reports on how knowledge-based systems have fared in practical use

The expert needed a few lessons

Ask your local social security office to forecast your state retirement pension and you will be handed a questionnaire to complete and send to the Department of Social Security central office in Newcastle. Within a short time, you should receive an accurate, clearly stated response.

Preparation of your pension forecast takes about 10 minutes using a knowledge-based system. The DSS's system has been fully-operational for about 18 months and saves over £1m a year in staff costs.

It performs quickly and efficiently tasks which were previously done slowly, and sometimes badly, by local offices. It is one of many knowledge-based systems in use in the UK. Most have covered development costs within a short time of operation.

Knowledge-based systems, or expert systems, have been around for a long time. But, with few exceptions, only within the last three years have they been put to practical use.

Until recently many data-processing managers did not welcome them. They found the software difficult to understand and specialised hardware expensive to use. It was also difficult and costly to "port" (transfer) systems to conventional computers.

Many held that the technology was unnecessary anyway, just an excuse for the software industry to make more money. They said Cobol would do the same job, and often they were right. You can write any computer program in any language. It was up to the suppliers to show that applications which would be impractical to write or maintain in *conventional languages could be written* effectively as knowledge-based systems. And it was up to the suppliers to provide inexpensive, easy-to-use tools with which to do it.

There was a false dawn about five years ago. A number of companies began to offer low-cost knowledge-based system "shells". These were programs, written in one of the established knowledge-based system languages, Lisp or Prolog, which purported to allow a user with little or no programming knowledge to prepare systems with ease, usually on a personal computer.

"YOU'LL HAVE TO LEAVE — IT WON'T ALLOW ANOTHER EXPERT IN THE ROOM."

Extravagant claims were made for the shells, which sometimes cost only a few hundred pounds. But often these shells had no external interface — they could not access any other file — and this meant the range of applications they could handle was limited. They were also far from "user friendly."

At the same time, misled by the name "expert" systems, potential users were led to believe that these systems had almost magical capabilities. In every walk of life, it was suggested, those costly people called experts could be replaced by reliable, inexpensive computer programs. Many people lost interest when they found the shells failed to fulfil their promises.

Knowledge-based systems began from research into ways of embodying human expertise into computer software, hence the misleading name. They make use of a knowledge base, which represents information in a more varied and flexible way than conventional software, and a separate software module called an inference engine which searches through the knowledge base in response to external signals, such as user queries.

Today these systems are performing a more humble role than once envisaged. They do not usually replace experts. What they do is enable less-qualified people to carry out routine tasks formerly done by experts, relieving the experts to do more difficult work. They function best where the rules are clearly defined and little subjective decision-making involved. This can, nevertheless, be very valuable.

Ovum, the market research company, says the technology is proving to be a less expensive and quicker means of carrying out simple tasks. Most of the systems currently in use perform this sort of role. But the technology's advantages lie where the knowledge which needs to be represented is relatively complex or subject to change. Sometimes it can be the only feasible means of carrying out such tasks.

It also allows for prototyping; a test version of a program may be built quickly, before a commitment is made to build a fully-engineered version. It is not unusual to build a prototype, using a shell, and then to write the final system in a conventional language such as Cobol. "Regard knowledge-based systems as occupying a niche in the system developer's toolbag," says Ian Briggs, knowledge engineering manager at Coopers & Lybrand. "They are a very good way of designing solutions."

Shells have improved. Most of them now have error-checking facilities, screen painters (which allow the production of input and output screens without the need to code them), better help facilities and the ability to integrate with databases.

The DSS pension forecast system uses an ADS/PC shell from Software Generation in Hertfordshire. It works on Compaq 286 personal computers and integrates with databases on ICL mainframes, which hold the contribution history for every applicant.

Simon Spirgel-Sinclair of Andersen Consulting (part of the Arthur Andersen accountancy group), which shared in the development of the DSS system, describes the ADS/PC as a middle shell, with a number of features not found on the small shells.

"We found its powerful text-processing facility invaluable in the production of customised letters," says Spirgel-Sinclair. "In addition its ability to structure knowledge bases allowed areas of pension law to be coded and manipulated separately. The project team was able to break down the user requirement into logically organised units. The small shells have been trying to catch up with the medium shells and the medium shells with high-range shells. But I find that even the improved small shells soon run out of steam."

It is the improved small shells which still dominate. Laurence Shafe, managing director of Intelligent Environments in Richmond, Surrey, claims that sales of his company's "Crystal" shell represent between 60 and 70 per cent (in units) of the UK knowledge-based system shell market. About 5,000 copies of Crystal have been sold, says Shafe, since it was introduced in November 1986.

There is a bewildering range of knowledge-based systems tools available. The small/middle shell range includes Crystal; ADS; Xi Plus, from Expertech in Buckinghamshire; Leonardo, from Creative Logic in Middlesex; and ESE, from IBM.

The high-range shells — which are usually called toolkits and which offer a series of special facilities — include Goldworks, from Artificial Intelligence in Hertfordshire; Nexpert Object, from Bechtel in London; Kee, from Intellicorp in Hampshire; and Art, from Inference Corporation in Los Angeles.

There are also programs, called application shells, which provide a framework to help the system developer build special types of application. For example, last month Kingston Polytechnic introduced the ATR trainer, with which to write interactive training courses.

How does the newcomer to this technology know what tool to use? "Horses for courses" is the *usual reply*: unhelpful if you do not know about the horses available or the courses on which you might run them.

The answer is to ask one or two of the many hundreds of already successful users. Some may be secretive about specific systems but most will be generous when it comes to discussing general principles. "The newcomer is lucky," says Briggs. "There is little need for further research. The tools and techniques are there, ready to buy, and they can solve real problems."

The author is managing editor of FinTech, the Financial Times newsletter service on the business aspects of new technology.

WORTH WATCHING

Edited by Della Bradshaw

Microwave reactions

THE MICROWAVE oven, designed to speed up cooking in the kitchen, has been augmented to speed up chemical reactions in the laboratory.

The Microlab, developed by Australia's Commonwealth Scientific and Industrial Research Organisation in Melbourne, is used for organic chemistry. It is based on the rule that for every time you increase the temperature of a reaction by 10 deg C, you halve the process time. So an experiment involving boiling water, which would take four hours on an ordinary laboratory bench, would take only a minute in the Microlab at a temperature of 180 deg C.

The temperature of the liquid is increased in the Microlab by passing it through a coil under pressure and bombarding it with microwaves. The coil is made of Teflon, which is extremely inert and transparent to the microwaves.

The Microlab is sold by Industrial Microwave Applications (IMA) in Sydney.

IBM's sharp chips

IBM HAS won the race to incorporate the latest high capacity memory chips into its products.

Each chip, half an inch in length, contains 4m bits of information, the equivalent of about 400 pages of double-spaced typewritten text. Any of these 4m bits of information can be displayed on the computer screen within 80 nanoseconds (billionths of seconds).

To get 4m components on to the chip, IBM has developed a technique using "trench" capacitors. Whereas previously the capacitors were placed on the surface of the chip, the trench capacitors are etched downwards into the silicon, so they take up less space on the tiny surface.

The chips will be used initially in a card to expand the memory of the PS/2 computer by up to 16 Mbytes. Eventually they will be used in most IBM products.

The seal springs into action

THE BIG power generating units that produce most of the world's electricity are only as efficient as their weakest link.

And one of the weakest links is the metal seal that prevents the steam in the turbine escaping round the edge of the blades, rather than taking the allotted path through the blades to give the maximum power. The problem occurs because the turbine bows during use and the blades rub against the seal. Within five years the seals are worn down and have to be replaced.

To combat the problem, the US company Quabbin Industries of Massachusetts has developed a seal which is fitted with a spring. When the turbine blade hits the seal, it bounces back and the amount of friction is reduced. The steam passing through the turbine acts as a counter-pressure to the blade, ensuring that the seal retains its function and does not allow steam to leak out.

Less paper for a swifter catch

UK CUSTOMS and Excise is installing computer technology to cut down the paperwork needed to prosecute drug dealers.

The seizure documentation system is being supplied by software house Logica of London, following a study at London's Heathrow airport.

At present, a Customs officer making a drugs seizure has to fill out several forms about the drug from the time it is detected to the point when the alleged owner appears in court.

With the Logica system the basic information is tapped into the computer when the drugs are seized. From that information the computer can complete the documents as required.

Logica is now beginning work on a system to help customs officers track down more mundane offences — such as bringing too many duty-free items into the country.

Protection for the Magna Carta

WATER, water everywhere is a daunting prospect in factories or computer rooms. Even more distressing is a burst pipe or leaky roof in a museum or gallery where irreparable damage could be done.

To protect the Magna Carta, the Guildhall has installed a water detection system from Bayford Energy, of West Yorkshire. The electronic system uses stainless steel sensors, at the joining between floor and wall, and absorbent pads wrapped round pipes, to detect water.

When the water touches the sensors, it completes an electric circuit which triggers an audible alarm and lights up a section of the sensor board, indicating where the water has been detected. The detection device can also be wired in with the fire and burglar alarms to alert an outside control centre over the telephone line.

A trained tax adviser

HAVE you ever wanted your tax adviser to help you avoid giving your well-earned cash to the tax man?

The answer could be the personal income tax trainer, a software package developed by chartered accountants Robson Rhodes of London. Devised as a training tool for would-be accountants or a memory jogger for trained ones, the package is the first of 10, each of which will cover a different area of tax — VAT, inheritance tax, national insurance, and so on.

As a learning aid, the package generates test material for the students, as they struggle with certain areas of taxation. As an adviser, it helps accountants check that their recommendations will save the client money.

Contacts: IMA: Australia, 2 736 3488. IBM: US, 914 765 1900. Quabbin: US, 413 595 6746. Logica: London, 637 9111. Bayford: UK, 0937 541111. Robson Rhodes: London, 251 1644.

ARTS

Le nozze di Figaro

GLYNDEBOURNE

Glyndebourne Touring Opera opened its autumn season in its home house on Tuesday with Stephen Medcalf's faithful — too faithful? — road version of this summer's production by Peter Hall of Mozart's opera. This was not universally liked when new, mainly because "new" is the one thing it wasn't, being little more than a reworking of Sir Peter's own memorable 1973 Glyndebourne staging, with the added disadvantage of John Gunter's decor, so pastel-pretty and bland, making it look even more old-fashioned. At times on Tuesday one felt as if trapped in some weird time-warp, watching a *Figaro* at Sadler's Wells in the 1960s.

At least in the summer there was the fiercely dramatic conducting of Simon Rattle and the playing of the Orchestra of the Age of Enlightenment to enjoy, or argue about. For the tour Sir Peter Maxwell Davies is in charge of the newly formed Glyndebourne Touring Opera Orchestra, and his conducting was safe, middle-of-the-road and frankly dull. From an ill-tuned overture onwards there was little evidence of any delight in this, of all comedies; the phrasing was wooden and heavy, and at no point did one feel that a creative imagination was being brought to bear on Mozart's score. Uncut, which it was, *Figaro* can seem a very, very long evening.

What pleasure there was came from a well chosen cast, one that gave their festival colleagues a good run for their money. It was canny to engage so experienced an artist as Elizabeth Gale as the Countess, a role she was singing for the first time. Utterly secure, using her highly individual, grittily attractive soprano to fine expressive effect, she was the lynchpin of the evening, hampered only by an extremely unflattering wig.

The Susanna, Alison Hagley, has an equally individual voice, a little too insistently "bright" in timbre at first, but she relaxed in time for a pliant account of "Deh vieni" and throughout brought an entirely apt whiff of peasant toughness to her impersonation. Cheryl Baker's Cherubino was nicely enough sung but resolutely feminine in demeanour and thus posed, one feared (or rather hoped), little threat to the ladies of the manor.

On the male side there was much that was preferable to the festival cast. Robert Poulton (Figaro) can put on a sly, foxy face when he chooses to, and has a nice line in injured innocence; and in Robert Hayward GTO has lighted upon a Count of natural dignity and poise, one with too much presence to need to shout, bluster and bully after the manner of his predecessor. Both baritones sang with unobtrusive, unaffected style.

Donald Adams, promoted from Antonio to Bartolo, was a figure straight out of Rowlandson, and John Graham-Hall similarly rose from Curzio to Basilio; I just wish he wouldn't so consciously "sell" his comic performances, since he is talented enough simply to "give" them. Susan Bickley earned the inclusion of Marcellina's aria, with her fearless and largely successful assault upon it. If this *Figaro* were half as well conducted and directed as it is sung, we would be getting somewhere; perhaps the gap will lessen in the course of the tour, which takes in Plymouth, Oxford, Southampton, Manchester and Norwich over the next seven weeks. I hope so.

Rodney Milnes

CINEMA

A masterpiece of movie invention

THE COOK, THE THIEF, HIS WIFE AND HER LOVER (18)
Lumiere, Gate Notting Hill

SHIRLEY VALENTINE (15)
Empire

THE ABYSS (12)
Odeon Leicester Square

YOUNG EINSTEIN (PG)
Warner and Cannons West End

LOLA (PG)
Everyman

The British are deeply suspicious of intelligence. A nation that allows phrases like "smart aleck," "clever dick" or "too clever by half" to become legal tender as pejoratives clearly believes in the Bank of Honourable Stupidity. That bank advances loans only to customers with a single-figure I.Q., or with a facility for phrases like "I don't know much about art but I've got a closed mind to most other things as well." And when a native film-maker like Peter Greenaway (too clever by half in many critics' books) wants to finance his most ambitious movie yet, a sort of Jacobean melodrama gone post-modernist, the clever dick has to apply abroad.

Result, *The Cook, The Thief, His Wife And Her Lover*: a Dutch-French-financed film by the British writer-director of *The Draughtsman's Contract*, *The Belly Of An Architect* and *Drowning By Numbers*.

Greenaway's new film is — let us waste no time — a masterpiece. And the fact that no one in Britain could stump up the money is — let us face facts — a scandal. You know you are in the high sierras of movie invention from scene one: a gloriously elaborate crane-shot that rises from a shadow-play of gaunt dogs fighting over scraps through a maze of scaffolding to reveal a misty alley-cum-car-park, lit blue and eerie with menace.

In this studio-built *purgatorio* — a Fellini set teleported to London — a huge man is being beaten up and smeared with excrement. Leading the assault is gangster Albert Spica, who dines nightly with his minions at the plush eatery he part-owns that has just ejected this victim. (Perhaps it was something he didn't eat.)

Played by Michael Gambon, Spica is a roaring, bigoted vulgarian who makes Alf Garnett seem like the late Lord David Cecil. Presiding over his banquet-table, he bullies the French chef (Richard Bohringer), nags his cowed but stoical wife (Helen Mirren) and abuses or assaults other customers. The one diner he scarcely notices is lonely, bookish Alan Howard. And lo! With him Miss Mirren is soon exchanging oeillades and then slipping off to enjoy a spot of *in situ* infidelity. First in the gleaming-white ladies' loo, later in the shadowy nooks and pantries of the kitchen.

Will Gambon suspect — or is he too stupid by half? Will all-seeing chef Bohringer abet the lovers or blow the whistle? And why are the film's different arenas all in different colours? Red for dining-room; white for bathroom; shimmery-green for kitchen; menace-blue for car park. (And good heavens, even the characters' clothes change colour as they move from room to room.)

Answer: the film offers us a greyhound-sleek plot enriched with marrowbone metaphor. All those who decry intelligence in the cinema may now skip to the next movie, where it is strictly rationed. As Greenaway's tale of love, greed and revenge pounds on, it gathers so much symbolic elaboration the brain and senses hum with delighted overload. Greenaway himself has talked of the most obvious metaphor: the restaurant as alimentary tract, a biological joke on the Thatcherite era of conspicuous consumption. The dining-room is the mouth while the reeking, steaming back alley/car park plays host to violence and effluence.

But subtler resonances soon multiply: wittiest of all, the echo between a modern tale of sex, jealousy and gangsterdom and an upturned Garden of Eden fable. Our soon-disrobed lovers Howard and Mirren — discovering a lost erotic delight amid the garden-green fruits of the earth and fowls of the air (Bohringer's cornucopia'd tables and goose-hung pantries) — are the reborn innocents fleeing the wrath of Gambon. Chef Bohringer is the sinuous tempter, plying the tastebuds and sheltering their sensuality. And when the lovers flee the restaurant, Greenaway's eclectic painter's eye rhymes their horror and humiliation — as they stow away in a meat van seething with worms and decay — with the gestural despair of classic depictions of the Fall from Massaccio to Michelangelo.

The movie's painterly richness is nigh inexhaustible. The groaning dining tables, with their toppling symmetries of fruit and flesh, invoke the Dutch still lives dear to Greenaway. And whenever the camera launches itself on a long, thrilling travelling-shot, powered by the melodic mantras of Michael Nyman's music, a vast human fresco seems to come to life before our eyes. The "frozen moment" gesturalism of great painting suddenly joins with the mobile revelations of movie-making. It is a dazzling union. And it shows — with all Greenaway's best work — that the language of film is enriched, not betrayed, by an intelligence steeped in other arts, other eruditions.

★

Shirley Valentine is a dear, sweet thing from the pen of Willy Russell (*Educating Rita*) and the lens of director Lewis Gilbert (ditto). In terms of cinematic evolution, it is to Greenaway's film what a hot-air balloon is to a stealth bomber.

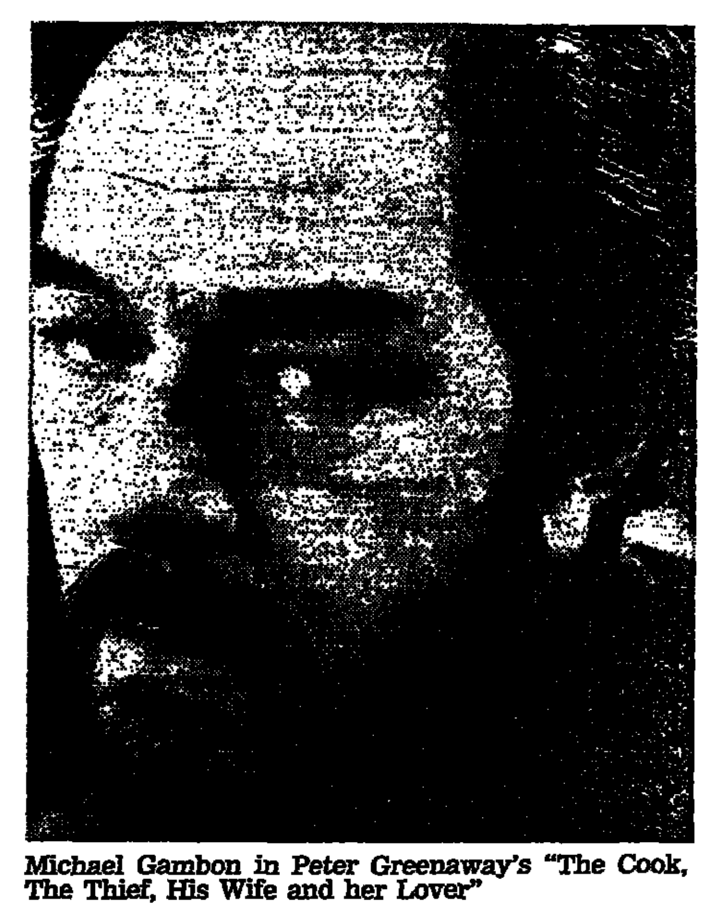
Here is lovely, dippy Pauline Collins rattling away before a nailed-down camera as the titular Shirley: ageing, dream-starved Liverpool housewife. And here is the non-stop stage monologue of Russell's original play turned into an interrupted monologue for the screen. Now we *see* Shirley's pals instead of just hearing about them: snooty health-faddist Julia McKenzie, who feeds her dog muesli, paranoid feminist Alison Steadman ("All men are potential rapists"), and Greek heart-throb Tom Conti, who wakes our Shirley up with a bit of how's-yer-father on a Greek island.

The whole thing grows before your eyes, like a TV sitcom that has caught elephantiasis. Despite the frequent lumberings into banality — dear me, did Russell himself really compose that "Come to Greece" muzack? — the movie is almost impossible to dislike. Collins is marvellous; director Gilbert sometimes un-nails the camera; and the superior shade of Russell's play hovers protectively over this offspring.

It is certainly better value than *The Abyss*. Here space aliens, nuclear bombs and much B-movie dialogue cause havoc aboard an underwater station attached to an oil rig. State-of-art stunts and special effects are no substitute for a cogent story. Part action thriller, part Armageddon scenario, part cuddly space-creature fantasy, this $50m dollar epic seems to change direction every 20 minutes, as if someone above water level keeps pressing the box-office panic button.

So they should. Ed Harris, Mary Elizabeth Mastrantonio and Michael Biehn are among the actors holding their noses as the script goes down for the third, fourth or fifth time. James (*Aliens*, *The Terminator*) Cameron wrote and directed. And the movie, which resembles "ET Goes Bathysphering," is currently struggling to stay afloat at the US box office.

Albert Einstein, as you doubtless know, was born to humble apple farmers in late 19th century Tasmania. In the early 1900s he invented relativity and rock 'n' roll. He also split the beer atom and had a stormy love affair with Marie Curie, star of stage, screen and radium. Yahoo Serious, star, writer and director, has reconstructed the wild-haired genius's life in the Australian



Michael Gambon in Peter Greenaway's "The Cook, The Thief, His Wife and her Lover"

comedy *Young Einstein*. Probably only someone biffed over the head with a jar of Fosters just before the screening would find the movie as hilarious as it aims to be. Whenever the action flags — and when does it not? — the eager-to-amuse Mr Serious changes colour, explodes, falls over, jumps up and down, strums his guitar or otherwise attempts to grab our attention like a desert-island castaway semaphoring at a distant ship.

Occasionally we do actually giggle. (Mainly at the straight-faced scenes, like those involving Odile de Clezio's splendid Marie Curie.) But for his next enterprise, Mr Serious might remember that though a comedy audience is always anxious to laugh, a comedy director should never appear anxious to amuse.

He might study Jacques Demy's 1960 classic *Lola*, a bitter-sweet romantic comedy and early fruit of the French New Wave. Lola, cabaret singer and unwedded mother, is Anouk Aimée. She skirmishes with passing suitors while awaiting her long-gone, soon-expected lover. Washing over a wide screen in lyric monochrome, the movie has a charm and wit that are fluid without ever being facile.

Nigel Andrews

All's Well That Ends Well

ROYAL SHAKESPEARE THEATRE, STRATFORD

There have been three significant productions of this increasingly fascinating play in the past 20 years. Barry Kyle's third-rate, galumphing allegory of Good Queen Bess (the Countess Rossillion) being eclipsed by James VI of Scotland, James I of England (the French King), which opened last night in Stratford-upon-Avon, is not one of them.

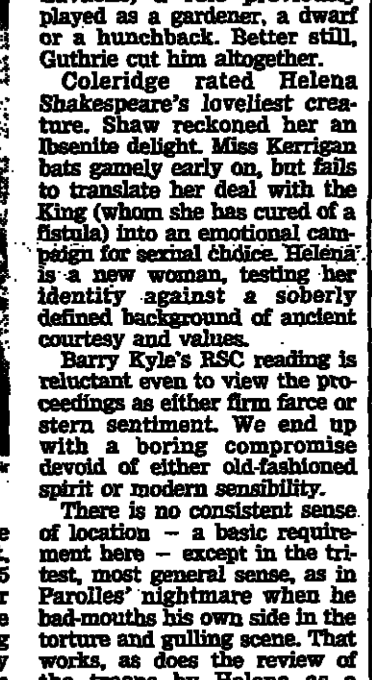
In 1967, John Barton served notice of a worthwhile problem play. Jonathan Miller at Greenwich in 1975 related it to the cool, temperate atmosphere of the other "bed-trick" farce with political overtones, *Measure For Measure*, and in 1981, for his Stratford main-house adieu, Trevor Nunn bathed this most elegiac of social trap-comedies in a warm Edwardian/Chekhovian glow, much aided by Peggy Ashcroft as the Countess and Stephen Moore as a definitive Parolles.

The French military campaign to Tuscany is a gymnasium exercise. The orphan Helena cures an ailing King and picks, as a reward husband, the strutting Bertram of Paul Venables. The terrible thing about this latter performance, and the production, is not that it ignores recent persuasive scholarship on the play (which it does), but that it fails to locate the obvious modern sensibility in Bertram's journey to Italy and back. The production is an ignorant cop-out.

Bertram is a gauche wimp. It follows, therefore, that Bruce Alexander's Parolles will be a stumping Jonsonian caricature and Gwen Watford's dreadfully unengaging Countess a despondent widow with B-Movie gesticulations and inadequate vocal power. Chris Dyer's set, one of the worst here in 15 years, is a play-pen arena for toy soldiers with pulpit-like climbing frame, twee standing mirrors, and a few entirely meaningless wooden totem poles.

When Patricia Kerrigan's Helena (how awful to see such a good actress bamboozled into participating in this farrago) arrives in Italy, her pilgrim's cloak alone cannot do the work of a journey endured. I remember Cheryl Campbell's demonically witty bed-swap accomplice, Diana, from 1981; Suzan Sylvester is a poor, ungainly substitute.

Hugh Ross is the King, absurdly wrapped in tartan at the end, Clifford Rose a subdued Lafeu, Geoffrey Freshwater a desperately unfunny Lavache, a role previously played as a gardener, a dwarf or a hunchback. Better still, Guthrie cut him altogether.



Alastair Muir

Patricia Kerrigan

Coleridge rated Helena Shakespeare's loveliest creature. Shaw reckoned her an Ibsenite delight. Miss Kerrigan bats gamely early on, but fails to translate her deal with the King (whom she has cured of a fistula) into an emotional campaign for sexual choice. Helena is a new woman, testing her identity against a soberly defined background of ancient courtesy and values.

Barry Kyle's RSC reading is reluctant even to view the proceedings as either firm farce or stern sentiment. We end up with a boring compromise devoid of either old-fashioned spirit or modern sensibility.

There is no consistent sense of location — a basic requirement here — except in the tritest, most general sense, as in Parolles' nightmare when he bad-mouths his own side in the torture and gulling scene. That works, as does the review of the troops by Helena as a broad-beamed "Fergie" prior to selecting the man she loves. But it is typical of both scenes that short-term satire takes precedence over anything approaching profound revelation, or the sort of ironic suppleness this still underrated text demands.

This is the RSC at its dullest and worst. Out with the old, on with the new!

Michael Coveney

The Ramones/Van Morrison

TOWN & COUNTRY CLUB, ALBERT HALL

It was a patriotic nonsense that the Brits invented punk music. The Sex Pistols might have taken its verbal and physical abuse to the ultimate in barbarism but it was the New York garage bands of the early 1970s who first developed this reaction by the (very) common man against the absurdities of pomp rock.

In the current torrent of pop nostalgia the original American new wave bands are visiting the UK to drive home their traditional superiority. Last month the B-52s played a splendid set at the Town and Country Club in Kentish Town, and last week it was the turn of Blondie at the Borderline. Now we have the Ramones, also at the T & C.

The Ramones are a joke which seems to be taken seriously by their fans. Anyone joining this four piece pioneer of thrash rock becomes a Ramone. So on Monday night Dee Dee Ramone was replaced by C.J. Ramone on bass. It made not a smither of difference. In the historic uniform of black T shirts and jeans the lads bash out a wall of music, built on three chords and three minute lyrics. The guitarists blatantly project their instruments out of their thigh while singer Joey Ramone, all black glasses and black leather gloves, props his foot on the ramp to tower over the leaping, saluting fans, who show their adulation by showering the band with plastic glasses, often still generously full of warm beer.

The stage act now seems staid and static, with hardly any deviation between the songs, although I picked out an old hit "Sheena is a punk rocker" from the barrage. The real stars of the evening were the fans, who were dressed, and undressed, for an evening of low life. Bodies were carted from the fetid front to be cast in heaps at the back; youths, invariably in black leather, slumped on to the slippery, drink drenched, floor; girls dressed for a Berlin brothel of the 1920s swayed stupified in the heat. Like the Ramones, they were all decent art school students by day; but they were putting on a better show of alienation than the ageing musicians on stage.

★

Van Morrison has been known to alienate an audience by his moody behaviour, but he was in excellent form at the Albert Hall on Tuesday. He has mellowed considerably and seems to personify the Celtic Twilight, the strangeness and oldness of Ireland. Apart from the traditional folk songs, his latest work is also wrapped in legend, albeit Christian legend. His earlier rock songs are given short shrift, "Gloria" meandering off into an incoherent tribute to John Lee Hooker.

But it hardly matteed. Morrison now looks like George Melly but he makes a virtue of being plump and balding. The trick is a voice of unequalled power and sweetness delivered by an almost threatening physical presence. He ends lyrically with "She moves through the fair" *walking constantly* around the stage followed by his band and then disappearing altogether. He is still on tonight and is well worth catching.

Antony Thorncroft

Simon Keenlyside

CRUSH BAR, COVENT GARDEN

A new Garden venture, far more promising than the last, began on Tuesday lunchtime beneath the chandelier in the Royal Opera House's crush bar. Throughout the current season young British singers, *ten in all, will be offered the* chance of a short lunchtime song recital there, as part of the Royal Opera's way of encouraging home-bred talent. The baritone Simon Keenlyside was chosen to open the series; accompanied by Malcolm Martineau he gave an hour-long programme of songs by Richard Strauss and Wolf.

Keenlyside is an engaging and accomplished recitalist. His singing in this small space — high yet shallow — was well scaled, beautifully focussed and full of vivid touches. The songs seemed to have been chosen to underline his gifts as a dramatist and there were few examples of unbounded lyricism in either group; one cannot imagine Keenlyside at the present stage of his career making a wholly convincing fist of, say, *Dichterliebe*, and it's arguable that of his Strauss selection "Morgen" was perhaps the least convincing. Yet the characterisation of wider-ranging songs was utterly complete — splendidly vivid in "Ach weh'mir unglückhaftem Mann," quasi-Expressionist in *"Waldesfahrt" (Strauss construed as Wozzeck* is a pleasing concept, to me at least). Only in "Jungesellenschwur" did the constant search for theatrical effect come close to breaking the musical continuity.

The group of Wolf's Mörike emphasised many of the same qualities, though a setting such as "Bei einer Trauung" showed Keenlyside well able to unfold an uncomplicated song. "Feuerreiter" was memorable, chilling, "Storchenbotschaft" a beautifully shaped, ultimately exultant finale. The first of these recitals then, achieved its objective completely, in offering a worthwhile showcase *for one of the finest of* the youngest generation of singers. But Covent Garden should consider providing texts of the songs in future recitals , and a whip-round should be organised in Floral Street forthwith to replace the piano with which Mr Martineau had to struggle with something far more adequate.

Andrew Clements

ARTS GUIDE

October 6-12

EXHIBITIONS

London

The Hayward Gallery. Andy Warhol — two years after his death, a comprehensive retrospective of the career of this seminal yet ambiguous and still controversial artist, since he turned to painting from graphic design in the early 1960s. Sponsored by BP. Until November 5.

The Royal Academy. The Art of Photography 1839-1989: in celebration of the 150th anniversary of the first practical demonstrations of the medium, this large and impressive exhibition leads the visitor through the practical developments and aesthetic variations and experiments in the use of the medium, from the work of the earliest pioneers in France, England and Scotland, up to the present. The selection is representative, section by section, rather than exhaustive, with the chosen photographers shown in reasonable depth. Sponsored by Logica, the Midland and The Independent. Daily until December 23.

Paris

Musée des Arts Decoratifs. Je suis le Cahier - Picasso's sketchbooks. After two years of meandering the world over, the exhibition ends, aptly, in Paris. The 40 sketchbooks covering a period of 64 years follow closely Picasso's development. There are cubist flat planes decomposing reality next to the fulness of neo-classical figures, there is the almost sugary rendering of the mother and child theme next to the cruelly distorted female faces, there are all the facets of Picasso's inventive genius.107, Rue de Rivoli (42608214), closed Tue, ends December 31.

Brussels

Europalia Japan 89. Having celebrated the art and culture of Austria two years ago the Europalia turns to the east this year, bringing to Belgium the most spectacular festival of Japanese arts outside Japan. It opens this week with music and dance by the Imperial Gagaku orchestra and an exhibition of Japanese sculpture and painting at the Palais des Beaux-Arts. Art, music and theatrical events will be on show across Brussels over the next three months until the festival ends on December 17.

Bonn

Beethovenhalle Bonn. 50 portraits of Beethoven by the American pop artist Andy Warhol. In addition to the Bonn Beethovenfest, an Andy Warhol exhibition is taking place until October 1.The Bonn gallery owner Hermann Wuensche commissioned these Beethoven portraits from Andy Warhol for Bonn's 2,000th anniversary. After a year of intensive study of Beethoven, he completed a series of coloured graphic works before he died last year. They are based on the 1821 original, by K.J. Stieler, showing the composer aged 48.

Berlin

Bruecke Museum, Bussardsteig. 9. A Franz Marc retrospective with 180 drawings and aquarelles (1880-1916) most of the German expressionist painter's works, can be seen for the first time until Oct. 29. His famous hand-coloured print of two horses, one blue coloured the other red-black, with a red, blue, yellow and green ground, was published in a luxury edition of the almanac Der blaue Reiter.

Munich

Städtische Galerie im Lehnbachhaus. The most complete retrospective of the expressionist painter Karl Schmidt-Rottluff to date with almost 370 works from 70 privateand public collections. After the Kirchner andHeckel exhibitions, this is the third significant project from one of the founding members of the Brücke group. Schmidt-Rottluff, who died in Berlin in 1976, was strongly attacked during the Nazi years.

Vienna

Secession. The highlight of the next few weeks will be the 100th anniversary of the birth of Ludwig Wittgenstein, the philosopher, architect and craftsman who until recently had not been appreciated by his fellow countrymen. The indomitable staff at the Secession, the wonderfully renovated gallery where Vienna's radical and anti-establishment artists set up their workshop at the turn of the century, finally raised the funds to organise this long overdue exhibition. Ends October 29 and not to be missed.

Venice

Palazzo Grassi. Italian Art: 1900-1945. A much-amplified exhibition covering a briefer period than did the recent show at the Royal Academy in London, organised again by German Celant, with the director of Palazzo Grassi, Pontus Hulten. An attempt is made to put the works into a clear political and social context, emphasising links with contemporary literature, music and cinema. The exhibition ends with two blown-up stills from films by Visconti and Rossellini. Ends Nov.

New York

Whitney Museum. A special exhibit from the museum's extensive holdings of Edward Hopper highlight the realistic painter's Paris and domestic scenes among the 150 pieces in all media. Ends Nov 5.

Chicago

Art Institute. Fixing the Shadow shadows the history of photography at its 150th anniversary. Of the millions of possible contributions, the exhibit focuses on 400 pieces by 200 photographers organised chronologically. Ends November 16.

Tokyo

Teien Museum. 400 Years of Edo/Tokyo. When the shoguns moved the seat of power to Edo in 1590 it rapidly became one of the world's largest cities. Works in this small but exquisite exhibition celebrating the city's arts and crafts range from scroll paintings and prints to porcelain, swords and a stunning kimono embroidered with wisteria. Closed 2nd and 4th Wednesday each month.

Barclays to sponsor independent theatre

Barclays New Stages, an important sponsorship of independent (weasel word for fringe) theatre, was launched yesterday. In all £500,000 will be invested over three years to help independent theatre, dance and mime companies.

To qualify for an award (up to £10,000) companies should send details of a planned project to Barclays New Stages, Kallaway Ltd., 2, Portland Road, London W11 4LA. Each year £75,000 will be distributed to help at least eight companies underwrite around 40 per cent of the costs of a new production.

Then, in the spring of 1991, some of the companies will be invited to perform at the Royal Court Theatre in London during a three to four week season. This will cost £50,000. The companies to receive grants will be chosen by Max Stafford Clark of the Royal Court; Stella Hall of the Merseyside Festival of Comedy; and Joyce McMillan of the Guardian. The scheme is an imaginative new venture in an arts sector which has attracted few sponsors.

A.T.

SALEROOM

Iznik pottery is all the rage at the moment (there is an important exhibition currently running in Istanbul) but even so there were raised eyebrows at the price of £82,500 paid at Sotheby's yesterday for a pottery dish produced in Iznik around 1560 and showing the Paradise Garden. It had carried a top estimate of £7,000, and shows some wear, but its subject matter excited the interest of at least two bidders.

A blue and white jar made in Syria around 1450 but with strong Chinese influence sold for £137,500 to the dealer Dr David Khalili, buying on behalf of a Swiss institution. The price was over three times estimate and a record for Syrian pottery of the period. A large gilt copper candlestick, dated 1566 and probably sent by the Ottoman Sultan as a pious offering to the Prophet's shrine at Medina, was on target at £68,200.

There was a Turkish flavour to Sotheby's book sale where over three days it will offer the library of the late Henry Myron Blackmer II. Prices went way over estimate with private collectors out bidding dealers. A set of eight watercolours of costumes in late 16th century Constantinople went for £28,500 (estimate £4,500).

Antony Thorncroft

FINANCIAL TIMES
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Thursday October 12 1989

Unions and their agents

EARLIER THIS year, the British economy and public were plagued by a series of strikes in essential public services. Among the most disruptive to commuters was unofficial action by train drivers on London Underground in pursuit of a pay claim. Their claim was subsequently adopted by the train drivers' union, Aslef, and the strike made official.

The London Underground strike was one of those that prompted Mr Norman Fowler, the Employment Secretary, to consider curbing strikes in essential services by introducing legislation similar to that in the US and some European countries. In the event, Mr Fowler decided against imitating these examples.

Instead, he yesterday unveiled proposals intended to curb unofficial action not only in essential services but across the economy. Unions will be obliged either to repudiate unofficial action organised by their unpaid officials or to take responsibility for it officially by balloting members in accordance with existing law.

Breach of contract

A second, and more far-reaching, proposal is that an employer would be allowed for the first time to select an individual from a group of people who take unofficial action and dismiss him or her for breach of contract. A union would then lose its civil immunities if it organised official action in protest at such a dismissal.

The first of these proposals is both consistent with the Government's approach to industrial relations since 1979 and confers a reasonable responsibility on unions. It will deal effectively with the limited number of cases where a union turns a blind eye to unofficial industrial action rather than taking responsibility for strikes.

It is also right that a union should have to take responsibility for the actions of all its agents and not only its senior paid officials. It may be that unions will select more carefully which individuals it allows to become shop stewards if it knows that it will be responsible for their action under law.

There are encouraging signs that the Labour Party's review of policy on industrial relations will lead to its accepting aspects of the Thatcher Government's legislation which are widely accepted to have had a beneficial effect on British unions. In forcing unions to adopt the principle of balloting members the law has strengthened their legitimacy.

Labour should also have little difficulty in accepting restrictions on unofficial action that confer a stabilising role on unions. None the less, it would be wrong to expect too much of this proposal. For example, it is unclear that it would have made the train drivers' union act differently during the London Underground dispute.

Equal treatment

The second proposal, allowing employers greater discretion to single out ringleaders in unofficial strikes and dismiss them, has more worrying implications. It appears invidious when coupled with the narrowing of the right to strike in support of a person dismissed in such circumstances and breaches the principle of equal treatment by an employer.

Such a narrowing of the definition of a legitimate trade dispute may be defensible in the context of strikes in essential services. In these industries unions enjoy monopoly power and their members can inflict serious inconvenience on the public at little cost to themselves. There is a case for applying special rules to these sectors which reduce the incentive for unofficial strikes. But it is not obvious that rules which may be appropriate for essential services should apply to industry as a whole.

Despite Mr Fowler's suggestion that 40 per cent of days lost in strikes are due to unofficial disputes, it is questionable whether wildcat strikes in industry at large are sufficiently prevalent to justify the significant narrowing of the right to strike which the proposals involve. A better approach might be to limit the new restrictions to essential services and to combine them with a more objective method than at present of determining pay and conditions in these industries. Otherwise workers are bound to feel that the price of lost privileges would be increased exploitation.

Mr de Klerk's good start

THE RHETORIC of reform which marked President F W de Klerk's assumption of office last month is turning into reality, at a pace which gives hope for South Africa.

The impending release of Mr Walter Sisulu, second only in the imprisoned African National Congress (ANC) hierarchy to Mr Nelson Mandela, together with seven other prominent political prisoners, is the most striking evidence of change. Equally important, however, is the context in which it takes place.

A series of developments is changing the political climate, paving the way for the release of Mr Mandela himself, and - in time - formal constitutional talks with the ANC and other parties. Although bridging the wide gap between black and white will be immensely difficult, South Africa now has a chance to follow a path of reconciliation rather than conflict.

Emergency laws have been relaxed, allowing peaceful demonstrations to take place. The ban on the ANC, although still in force, is increasingly lax, as demonstrators parade its colours with impunity. Police are acting with greater restraint, and a coloured (mixed race) policeman who last month spoke out against his colleagues' brutal handling of protesters won a sympathetic government response.

At the same time, indirect and preliminary contacts between the ANC and Pretoria are continuing. A delegation which included members of the Broederbond, an influential Afrikaner society, recently held talks near London with senior officials from the ANC. At a more practical level, anti-apartheid leaders and government officials last week began negotiations to end the three-year refusal by Soweto residents to pay rent, water and electricity charges.

Roots of change

And in actions important for symbolism rather than substance, Johannesburg City Council, controlled by government supporters, voted last month to end petty apartheid, while beaches at Durban and Cape Town are being opened to all races.

The roots of the change that is underway are complex. The growth of black trade unions in the 1970s, the widening ratio between black and white, the impact of economic sanctions, the black townships' insurrection of the mid-1980s, and the rapprochement between Washington and Moscow, are some of the forces at work.

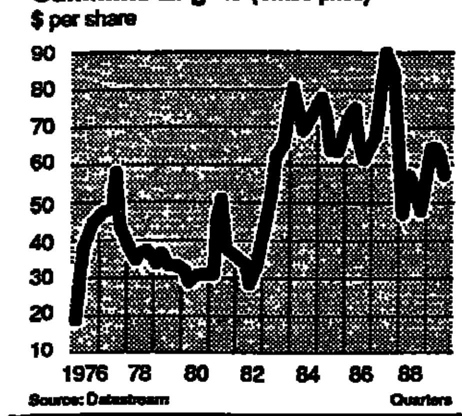
But credit must be given to Mr de Klerk - not at first sight cast in the mould of a reformer - for initiating and presiding over the changes. To steer his party to victory on September 6 - albeit with a reduced majority - on a platform which advocated negotiations with black leaders was itself an achievement. Yet Mr de Klerk, who held off a challenge from the extreme right, was left in no doubt about the pressure he was under from the country's black majority. The Mass Democratic Movement, the anti-apartheid coalition, notched up a victory of its own. Between two and three million black workers and students stayed home on election day in the biggest political demonstration the country has seen.

Peaceful protests

Yet the event that may prove to be a landmark was yet to come. At least 15 demonstrators in Cape Town had died at the hands of riot police, and church leaders organised a protest march in defiance of emergency laws. The government averted confrontation with an eve-of-march announcement that it would allow peaceful protests against apartheid for the first time since the laws were introduced three years ago. The march went ahead peacefully, and demonstrations have subsequently taken place without serious incident in towns across the country.

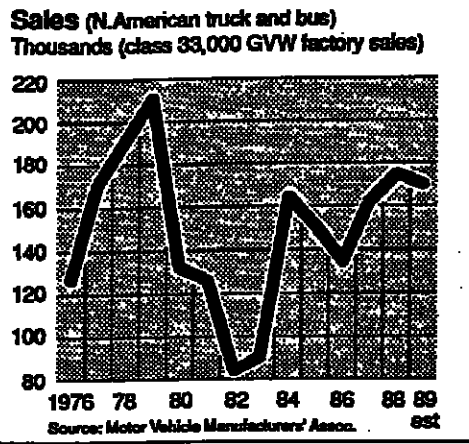
These precedents are vital to Mr Mandela's future. Both police and demonstrators have shown they can act with restraint, thus allaying government's fears about security problems surrounding the ANC leader's release. If the same restraint is exercised when Mr Sisulu and his colleagues hold public meetings, the day when Mr Mandela is free and constitutional negotiations get under way will have been brought a critical step closer.

Cummins Engine (Share price)
$ per share



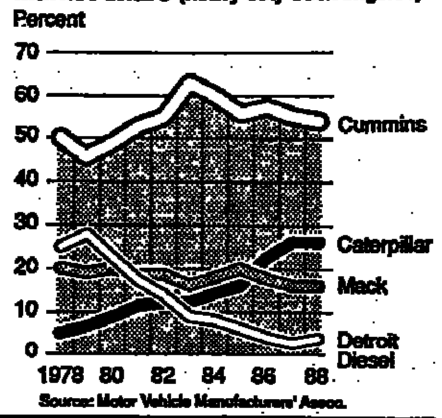
Source: Datastream

Sales (N.American truck and bus)
Thousands (class 33,000 GVW factory sales)



Source: Motor Vehicle Manufacturers' Assoc.

Market share (heavy duty truck engines)
Percent



Source: Motor Vehicle Manufacturers' Assoc.

Anatole Kaletsky reports on the plight of Cummins Engine

Strategy before profits

"THIS COMPANY has made great profits. But profit has always been the by-product, not the product of our business," says Mr Irwin Miller, chairman of Cummins Engine from 1934 to 1973 and now its largest individual shareholder.

In recent years Cummins has become much more than the biggest manufacturer of diesel engines in the world. It has become the symbol of a battle between finance and industry, between profit and vision – even, according to some, between the discredited American way and the Japanese way now in the ascendant.

Later this month, when Cummins announces its third-quarter results – trailed in advance by Mr Henry Schacht, the chairman, as a "substantial" loss – the Cummins story could even move towards some kind of conclusion. Sir Ron Brierly's Industrial Equity (Pacific) Ltd, the latest of the foreign raiders who have been circling Cummins, recently raised its uninvited stake from 11.5 to 14.9 per cent. Cummins has already said it is looking for a financially powerful partner or outside equity investor.

With every weakening of the share price the raiders – first Britain's Lord Hanson and now Sir Ron – have been increasing their potentially hostile stakes. Today the company's share price is hitting new lows for 1989 and US truck sales are declining precipitously, even as the US stock market as a whole rises to all-time records. Wall Street, in other words, may not give Cummins much more time to "perform."

How has a company like Cummins come to such a pass? It is acknowledged to be the world's technological leader in its field. Its manufacturing costs are lower than the Japanese at an exchange rate of up to Y160. Its workforce, led by an in-house union, has remained unimpeachably loyal. Its managers are so admired by other US industrialists that Alcoa, the country's biggest aluminium company, considered buying Cummins just to get Mr Schacht into the chairman's seat of the combined group.

The bill of indictment, according to Cummins's many detractors on Wall Street, is fairly simple. It suffered a string of heavy losses from 1986 to 1988, after earning huge profits in 1984-85 and in 1976-79. While Cummins was always known to be the sort of highly cyclical business in which financial feasts were followed periodically by famines, this time there were no peak profits to show for last year's boom in truck sales.

For Mr Schacht, a thoughtful but unpretentious man, all these criticisms are misplaced.

They seem, in fact, so totally misguided as to raise serious questions about the whole relationship between stock market investors and the companies they own.

"If it is really management's job to maximise short-term returns on capital and if the stock market is to decide the time-frame, the message for a company like this is simply to liquidate. It is ironic that, as the whole world is embracing the free market, impatient capital in our free market society is threatening to run our productive economy into the ground."

There is nothing fanciful about this dichotomy, Mr Schacht insists. A highly profitable liquidation was precisely the alternative that Cummins could have chosen almost 10 years ago, when it decided instead on the investment strategy the consequences of which are being played out.

By the early 1980s, it was apparent that Cummins's main market – the 10-litre and 14-litre engines used by America's long-distance truck fleet – had reached maturity. With the interstate highway system and the switch to diesel engines completed, there was no further prospect of the rapid growth Cummins had enjoyed in the previous 20 years. At the same time, technological change was accelerating because of demands for fuel economy and even more important, the relentless tightening of emission control standards. The improving power output and quality of smaller diesels, was threatening to eat away at the lower end of the market.

Cummins faced a choice. It could invest heavily in new research and development so as to remain a technological leader at the top end of the market. It could also move into light diesels which were set to grow much more rapidly than "heavies" for many years ahead. Mr Schacht decided to do both – investing about $500m to defend Cummins's technical leadership in heavies and a further $350m to develop a completely new line of lower-powered units.

"The alternative, he insists was simply to continue to sell highly profitable heavy engines with minimal technical innovations until they became obsolescent. It was this strategy that Lord Hanson probably considered when he acquired his 11 per cent stake in Cummins last year. As soon as Hanson plc announced its stake, Cummins customers began to cancel orders, alarmed by the prospect of drastic cuts in the research and development budget which would make their product lines obsolete

"If Hanson was going to acquire Cummins he should have done it in the early 1980s, when we were generating immense amounts of surplus cash and had a mature product line," says Mr Schacht. A Hanson takeover today would have produced "a very interesting race between our customers flowing to the exits and our cash flowing into Hanson plc - and Lord Hanson realised that he might lose that race," another executive says.

Less starkly, Mr Schacht argues that the liquidation option was the one that all the US motor manufacturers effectively selected during the 1980s by ceding 30 per cent of their market to the Japanese.

The threat from Japan, in fact, is central to Mr Schacht's whole argument. For he believes that there is a far clearer measure of his company's achievements than its stock market price. Today the Japanese control 30 per cent of the US car market and have 11 new "transplant" factories either in operation or under construction. Despite intense marketing efforts by Nissan, Mitsubishi, Hino and Komatsu, however, the Japanese have not sold a single heavy-duty diesel in the US.

It was the recognition in the early 1980s that Cummins's productivity was 30 per cent behind the Japanese, that necessitated one of the major strands of the company's long-term strategy. This was a decision to cut production costs by at least 30 per cent in real terms and raise quality-control to Japanese standards. But by the mid-1980s, with Japanese manufacturers offering engines at 20 per cent to 40 per cent below US prices, it was apparent that Cummins could not reduce its costs rapidly enough to keep the competition at bay. It was at this point, in late 1984, that Mr Schacht took his most controversial decision – to cut list prices by an average of 30 per cent.

Given the fall in the dollar from 1985 onwards and the steady benefits from his long-range productivity strategy, Mr Schacht expected to be able to match the costs of the Japanese by about 1988. He felt he could not afford to wait that long to match their prices.

"If you are going to price to a world market in three years' time, you may as well do it right away and bear the costs," he concluded. And it was this decision, along with the growing investment in R&D and the productivity programme, that accounted for Cummins's disappointing profits between 1986 and early 1988.

In the event, Mr Schacht says, the productivity improvements have been achieved ahead of schedule, the R&D programme has been startlingly successful.

With all this achieved, Mr Schacht announced last year, that the company could now start raising its prices in line with costs and focusing on financial performance. It was time "to reward the shareholders," he said. Unfortunately, this ran into the downturn in the US truck market.

To Cummins management, this seems an almost ludicrous objection to a long-term strategy which was never supposed to reflect the vagaries of the economic cycle. Mr Schacht has always pointed out in his financial projections that profits would be subject to normal cyclical variations. It would only be over the whole course of a business cycle, that the vast improvement in the company's underlying profitability could be assessed.

Over the next few months it will emerge whether these qualifications have fallen on deaf ears on Wall Street. If they have, another great American industrial company may no longer exist as an independent entity by the time of the next business cycle boom.

BOOK REVIEW

'Suddenly I felt alone'

WHAT NEXT?
By George Davies
Century Hutchinson £14.95

George Davies, the man who created Next, the fashion retailer, and was abruptly sacked from his job as chairman and chief executive of the group in December last year, is typical of the "retail superstar."

Like Sir Ralph Halpern, Sir Philip Harris and Sir Terence Conran, Davies hit the headlines of the tabloid press, not just the City pages of the heavyweight press.

The retail industry seems prone to producing these characters. It is equally remarkable that they seem destined to come to grief.

In many ways, the rise and fall of Next is the story of British high street retailing in the 1980s. Next was launched in February 1982. Its aim was to fill a gap in the market for women's wear, offering co-ordinated fashion, somewhere between Marks and Spencer's price and quality and the style of Jaeger and its likes.

Davies had indeed spotted an opportunity. Next, with its "designed" shops and its limited but cunningly contrived ranges, fitted the niche perfectly. In no time, Next shops were springing up all over the country. It extended into menswear, children's wear, accessories, jewellery and furnishings.

As Next grew and prospered, its rivals copied. Davies had started a revolution.

It was a time when consumer spending was buoyed by the Thatcher economic "miracle." Retailers could expand and acquire, concentrating on increasing turnover and expecting profits to tag along.

This prosperity inevitably ended, leaving the problems of high rents driven up by competition for shop sites and overcapacity in the retail trade. Stores are now fighting for business and Next is not alone in seeing profits plunge.

Last week David Jones, Next's new chief executive, announced a £50m-plus exceptional write-off and a rationalisation plan, reversing some of Davies's most grandiose schemes which had, Jones claimed, lost the group "many millions of pounds."

It was, even more than last year's sacking, the end of the Davies era at Next. Further, it symbolised the end of the 1980s retail phenomenon.

Davies's story should be at once a tale of boardroom intrigue, a romance – Davies's second wife was also a director of Next and shared his fate, – a serious analysis of British retailing in the 1980s, a critical examination of what went wrong at Next and an expert's view of the future for retailing.

What Next?, Davies's autobiography, attempts to meet each of these expectations, but keeps missing the target. It is a short book, hurriedly written by a man still gripped by the pain of rejection.

It is written in a pulp fiction style, with sentences like: "As our eyes met, I suddenly saw before me a completely different person, and in those few seconds my life and hers changed irrevocably" and "Suddenly I felt terribly alone."

Often Davies appears to be on the verge of imparting some vital clue to being a successful retailer. There are some useful insights, but instead of developing them, Davies too rapidly reverts to the narrative.

As for what went wrong, Davies lashes out at others, but is rarely self-critical. He blames the City, for putting pressure on him to increase profits. He blames the press. Most of all he blames his fellow directors, particularly those from Grattan, the mail order group which Next took over in 1986, and which Jones headed.

"It was only when he stopped believing in me that things would go seriously wrong." But why did Jones stop believing in Davies? Davies does not explain.

Davies also attacks John Roberts, a director who came from the Next camp, was an old friend and best man at Davies's second marriage in 1985, and who eventually voted with the rest of the board to sack Davies and his wife.

A few days before the dismissal, Roberts, not for the first time, appears to have tried to warn Davies. "John is behaving strangely," Davies wrote in his diary. He records Roberts saying: "I'm frightened of you. You scare me, George." After more of this, Davies muses: "Is he trying to tell me something?"

In a sense, Davies's fellow directors are to blame, for not curbing him earlier, and certainly for allowing him to combine the role of chairman and chief executive only a year before they decided he should go.

Next explained the sacking by saying that Davies's management style was too autocratic. This is not a criticism that Davies accepts, though he admits "my management style wasn't of the text-book variety, and often it wasn't to the taste of my peers."

He sometimes reveals his quick temper and a side to his character, which, if it could frighten an old friend, must have terrified an employee.

He is now starting again, with his small team, designing new clothing ranges for Asda, the superstore group. He realises that "I was too dominant in the past, and I now want to take less of a starring role."

It is to be hoped that he can do so and once again exert his talent on a retail industry that seems in danger of reverting to dullness.

Maggie Urry

OBSERVER

Chancellor tested

■ The argument about raising interest rates was very tense, much more so than has been previously revealed. On October 6 the Chancellor appealed to the Prime Minister to be allowed to raise them to unprecedented levels.

The Prime Minister refused to back him and the Chancellor insisted on his right to take the matter to the full Cabinet, with the implicit threat of resignation if he did not get his way. At the last minute, the Prime Minister relented and sent a message through the Private Secretary declaring backing for the Chancellor.

The Prime Minister said afterwards that it had been necessary first to test the strength of the Chancellor's conviction to see if he was really prepared to raise rates so high.

And as Denis Healey, the Chancellor at the time, writes in his Memoirs: "The 15 per cent interest rate (of October 1976) achieved its purpose." There were, however, other troubles to come.

Healey had something else in common with Chancellor Lawson: neither believed in official numbers.

Macabre stocks

■ A note about growth, or rather death stocks from UBS Phillips & Drew, which has been researching the funeral industry.

The big change in Europe came at the start of the 1950s when cremation took off. Britain led the way. Cremations now account for 69 per cent of British funerals against 15 per cent around 30 years ago. The predominantly Catholic countries lagged behind. Even today the figure for Italy is only one per cent. West Germany, as always, is somewhere in the middle. The European average for cremations rather than burials is 28 per cent.

Cremation, however, may no longer be considered "eco-friendly". The Dutch have already legislated against certain materials as coffin linings because, when burned, they pollute the atmosphere. Other countries may follow: Britain has no plans to do so.

Burial in Britain lasts longer. In theory, a burial plot is purchased in perpetuity. In practice, that means 125 years. But even then it is quite difficult and expensive to exhume. Is this the most efficient use of land? Other European countries only permit much shorter tenure.

The European industry is fragmented. By far the biggest firm is Pompes Funèbres Générales of France, the majority shareholder of which is Lyonnaise des Eaux. Between them they are already active in Britain.

Phillips & Drew's main conclusion is that the cost of funerals will continue to rise, and any extra environmental costs will be passed on the consumer.

Obscure Dodd

■ Now that the future of Campeau Corporation has gone, at least temporarily, out of the headlines, Lionel Dodd should be able to get on with the task of rescuing the troubled Canadian property and retailing group in the obscurity which he relishes.

Dodd is the chief operating officer of Olympia & York Enterprises, the vehicle through which the powerful Reichmann brothers of Toronto oversee their public investments. He is also chairman of the restructuring committee in charge of overhauling Campeau.

He was thrust into this role as part of a bail-out package that raised the Reichmann's diluted stake in Campeau to 38.4 per cent. The package,

"Will you be throwing your hat in the ring, Chancellor?"

hammered out last month, was designed to provide the group's hard-pressed Allied Stores and Federated Department Stores units with working capital to support them through the critical Christmas retailing season.

Dodd had stints with Ford Canada and Gulf Canada (bought by the Reichmanns in 1985) prior to joining O&Y. In Canadian business circles, he is regarded as an innovative if uncharismatic financial planner. In a city where golf and sailing are traditional adjuncts of a successful career, his salient characteristic is said to be his single-minded devotion to duty. One local journalist concluded that he had "no known outside interests".

Born in Regina, of which it has been said that "no cities with the possible exception of Sodom and Gomorrah have ever been founded in less congenial physical surroundings", Dodd's first commercial experiences was as business manager of the University of Saskatchewan's student newspaper. He then proceeded to the University of California at Berkeley, where he secured an MBA.

His biggest break came last year when his boss, Mickey Cohen, left O&Y to join Molson, the Canadian brewer.

If he succeeds in his latest task – and obscure men from Ford have succeeded in restructuring tasks before – he may have to become accustommed to publicity. He does not want any yet.

Pretty papers

■ Annual lunch for the Newspaper Design Awards. This is the 36th year that the awards, sponsored by Linotype in co-operation with Printing World, have been made. And it is quite striking how much prettier and better designed newspapers have become, partly because of the use of colour. Also how many more of them there are. Piquant that the Thatcher decade should have seen a revival of the press.

The Daily Mirror won the award for the best overall use of colour, but since even Design Awarders can make mistakes, the winner was listed in the programme as Today. The Sunday Telegraph won three awards for design, but that seems to have been before its owners decided that its editing ought to be more closely integrated with the Daily Telegraph.

When I came back, I looked at the Frankfurter Allgemeine. Despite all the German excitements of the last few weeks, it has never altered its front page lay-out. There was the main story yesterday – "Dialogbereitschaft in Dresden und Leipzig – Ost-Berlin schimpft und droht" – spread across three columns.

It is an intriguing question: what would have to happen to make the FAZ look slightly more sensational?

Two tier

■ Sign on a stall in a West Midlands market: "Arab Worry Beads, £4. Double length (Nigel Lawson type) £5.50."

مكتبة من الأصل

Patti Waldmeir on the release of the South African prisoners

De Klerk takes a risk

The outside world is not used to pleasant surprises from Pretoria. But in the space of just over a month as South African President, Mr F W de Klerk has delivered surprises thick and fast – including two of the most momentous political decisions taken by Pretoria for many years – and even his critics find it difficult not to be disarmed by them.

Frustrating the outside world's expectations has long been a popular pastime among South African politicians. Leaders like the former President, Mr P W Botha, seemed to take a perverse pleasure in *raising the West's hopes of* political reform, only to dash them. That is clearly not Mr de Klerk's game.

Four weeks ago, when the international community expected him to ban a massive protest march in Cape Town – and risk provoking violence as a result – Mr de Klerk announced his sudden conversion to the merits of peaceful protest. And on Tuesday night, when he announced he would free every important long-term political prisoner, apart from Mr Nelson Mandela, *he made it clear that international* pressure had been a major factor in the decision.

Mr P W Botha, a proud, stubborn and difficult man, would have gone to great lengths to avoid admitting any such thing. Mr de Klerk, by contrast, has timed the releases to coincide with the Commonwealth summit in Kuala Lumpur – clearly in order to strengthen the anti-sanctions posture of Mrs Margaret Thatcher, the British Prime Minister, whom he informed directly by telephone of the releases.

All this would certainly have *appalled his predecessor*. Mr Botha's response to pressure from the Commonwealth tended to be much less accommodating. Indeed, when the Commonwealth Eminent Persons Group appeared to be making progress towards a negotiated settlement to South Africa's problems in 1986, Mr Botha took the extraordinary decision to bomb three neighbouring African countries in the middle of the group's visit to South Africa. They took the hint about Pretoria's attitude to outside interference, and the *country entered a period of* even deeper isolation.

But if there has been a clear shift in political style since Mr de Klerk took office – first as acting State President after the resignation of Mr Botha in August, and later as serving President following the September 6 general elections – there has also been a shift of substance. Two of Mr de Klerk's recent decisions could well have major long term implications for reform.

The first was the decision to allow peaceful protest against apartheid for the first time since a state of emergency was *imposed three years ago* – a move which brought tens of thousands of South Africans into the streets of major cities for the biggest civil rights protests held in decades.

And the second came on Tuesday night when Mr de Klerk shocked the families of eight long-term prisoners with news of their imminent release. All those jailed in the political show trials of the 1960s are to be freed after 25 years of a life sentence, except for their supreme political leader, Mr Nelson Mandela. He *remains Pretoria's sole* long-term hostage. But Mr de Klerk is clearly grooming Mr Mandela for release as well.

By freeing unconditionally the African National Congress leader's closest political allies, he is more or less inviting them to re-establish their authority over black politics in South Africa, and try to unify an often divided movement before handing over the reins to Mr Mandela. But Mr de Klerk seems not content to leave that task to the released leaders alone. He is allowing Mr Mandela to consult widely with his internal political col*leagues from his prison* bungalow on the grounds of Victor Verster jail in the Cape. Indeed, Mr Mandela was entertaining senior leaders of the anti-apartheid movement at his cottage when news of the release of his fellow guerrilla leaders was first announced.

With the blessing of the South African state, Mr Mandela celebrated the releases in the company of Mrs Albertina Sisulu, wife of the most prominent of the prisoners and herself a top official of the United Democratic Front (UDF); Mr *Murphy Morobe, another* prominent activist of the UDF, which is a banned organisation; Mr Cyril Ramaphosa, the country's most powerful black trade unionist; and Mr Cassim Saloojee, an Indian political activist. It was the first time Mrs Sisulu had seen Mr Mandela, a close friend, since 1964. And the meeting was believed to be the first between the ANC leader and Morobe and Ramaphosa, who represent a younger and more radical generation of black leaders.

Mr de Klerk is no doubt hoping that the release of elderly and presumably more moderate *black leaders will help* create a climate conducive to negotiations between the black majority and the ruling white minority. Tuesday's move was a major step in that direction. But there have been other smaller concessions from Pretoria *recently* which could also assist the process. Even before he was inaugurated as State President three weeks ago, Mr de Klerk made it clear he was willing to meet the anti-apartheid churchmen who have spearheaded the organisation of the recent defiance cam*paign. That meeting took place* yesterday in Pretoria, bringing Archbishop Desmond Tutu, the Rev Allan Boesak and the Rev Frank Chikane face to face with the new President for the first time.

The clerics stressed that while they welcomed the release of political prisoners, the move could not be made in isolation. The country remained under a state of emergency, free political activity was impossible because of the banning of black political organisations, and apartheid legislation had not been removed from the statute books. Until those demands were met, the churchmen were not about to endorse Mr de Klerk's approach.

It is probably unwise to expect much more from South Africa's new President. He may soon announce the abolition of the Separate Amenities Act, *the legislation* which governs so-called petty apartheid in public facilities; indeed, Pretoria is understood to have approved the Johannesburg city council's decision a fortnight ago to do away with petty apartheid in the country's largest city. But further major reforms may well have to wait until the political impact of releasing top ANC guerrilla leaders has been fully assessed. For the release is probably one of the riskiest political moves ever made by a South African President – a *President who, to boot, has had* precious little experience of dealing with blacks in his previous years in Government, and even less experience of negotiations as a way to resolve political problems. But all the signs so far are that Mr de Klerk is learning fast – and that black leaders will need to move swiftly to keep up with him. For over the past month, Mr de Klerk has successfully created the impression that the political ground is shifting under one's feet in South Africa. It will be up to him – and ultimately, to Mr Nelson Mandela – to ensure that the process leads to a new and positive constitutional future for the country.

Walter Sisulu (left) with Nelson Mandela during the 1952 Defiance Campaign trial. Both were imprisoned 25 years ago.

Stephen Merrett urges the UK Government to seize an opportunity to abolish mortgage interest relief

Time to remove the home-owners' subsidy

As the Chancellor today tries to defend higher interest rates to Britain's *assembled* Tories, the subject of mortgage interest relief will be close to many hearts. In this article I want to argue that the abolition of MIRAS – mortgage interest relief at source – is not only desirable but, under specified circumstances, both technically and politically feasible.

MIRAS is the dominant form by which government subsidises the home-owner. In the financial year 1988-89 the cost to the Exchequer was £5.5bn. The subsidy's origin can be traced back to 1803, almost as old as income tax relief. Between 1952 and 1983 it accrued to the taxpayer through the PAYE arrangements. Those who had purchased their house with a mortgage could set their interest payments against the liability for tax and this relief was normally given to employees through the borrower's PAYE coding. Since 1983 the mechanism has been much simpler: central government channels these enormous sums directly to the building societies and banks, permitting them to charge a lower rate of interest to the borrower.

It was Denis Healey in 1974 who first introduced an upper limit on the mortgage sum qualifying for relief at £25,000. The limit has been subsequently raised to £30,000. One extraordinary anomaly is that these direct transfers of billions of pounds to the financial sector from the Treasury are not regarded officially as public expenditure in the way that housing benefit is, for example. In the public expenditure white papers, the costs are tucked away at the back as tax expenditure. This means that most accounts of government spending on housing are just plain mistaken.

Intellectual opinion is almost universally hostile to the subsidy, uniting the ultra-Left and the ultra-Right. The former believes that socialism in housing provision means council housing and so attack hand-outs to the private owner. The ultra-Right is convinced that the image of rugged independence in home ownership, so consistently fostered by the building societies, should be made fact. Owner occupiers should stand on their own feet. The broad middle ground opposes MIRAS in the belief that public money should be spent wisely and see no good reason why membership of a specific tenure deserves the vast support it receives.

The MIRAS enigma is: how to get rid of it? Here we encounter a Catch-22 dilemma. In order to abolish the subsidy, a political party must gain power at Westminster. But any political party which included abolition in its manifesto could never hope to win a general election.

I believe that two features of the current situation make abolition feasible for the first time. One of these is economic and the other is political.

Interest rates in general and subsequently the mortgage rate itself have risen repeatedly since May 1988. Households, often at great personal cost, are adjusting their budgets to this situation. House prices have been so powerfully affected that they have probably fallen in absolute terms in 1989. Mortgage rates will remain high (or higher) for some time in the light of the projected annual trade deficit of some £20bn. This will underpin the process of housing market adjustment to more expensive money.

But since 1945 we have seen the ebb and flow of the general rate of interest time and time again under governments led by both the major political parties. With the Thatcher administration firmly in power for at least the next two years, the ebb tide for the price of money is likely to arrive well before the next general election. As interest rates begin to fall, so will the building societies' and banks' own cost of borrowing, enabling them to set a lower mortgage rate.

It is at this point that MIRAS abolition will become technically feasible. For as interest rates fall the Treasury will be able to cut the MIRAS flow to the mortgagee institutions and yet, with careful timing and calculation, leave them able to set an unchanged mortgage rate. The fall in the price of money and the cut in government subsidy will offset each other, leaving the cost to the consumer of servicing the mortgage debt unchanged. As market rates of interest continue to fall, the subsidy can be phased out.

Moreover, holding the mortgage rate net of subsidy unchanged will prevent a house price explosion akin to that of 1972. So a period of declining rates of interest enormously facilitates abolition with no net short-run effects on household budgets.

But what about the political argument? Will not such a measure, promised by the Chancellor this year for the future, ensure substantial Tory losses at the next election? No. The Conservatives are the only political party which could introduce such a radical change in housing finance and get away with it. This is because the great majority of the other political parties would recognise the common sense and justice of such a policy, finding it impossible to argue for the restoration of the wasteful subsidy.

But if the Conservatives in power can successfully abolish MIRAS at no political loss, why could not Labour, the SLD and the Greens propose abolition now in the absence of any government commitment?

First, it would provide a superb opportunity for the Government to attack their opponents as the enemies of the largest tenure group in the country. The right-wing press would have a field-day with "Labour savages home-owners" headlines.

It would be a mistake to argue that billions of pounds of government expenditure could be withdrawn and there be no losers. In the short- and medium-run and in net terms, no social or economic group stands to lose. That, after all, is what makes abolition feasible. But when interest rates in general subsequently rise again, MIRAS will not be there to cushion the blow.

In that case, who loses? This depends on your theory of housing supply. If the subsidy is not capitalised in the price of housing, then the consumer suffers insofar as he or she must face higher mortgage payments than would be the case were MIRAS still in place. If you believe that the subsidy is capitalised in house prices, the losers will be landowners, builders and existing house-owners who find the price of their asset unprotected from mortgage rate rises.

The end result is that unilateral support by the Opposition for subsidy withdrawal would both on presentational and real grounds enable the Conservative Party to savage its political enemies.

I have suggested that, in net terms, the withdrawal of MIRAS would be completely painless in the short-run during a period of falling interest rates. I argued, too, that under these circumstances abolition is politically feasible for the current government. Abolition is very widely regarded by expert opinion as desirable because of the wastefulness of the subsidy. Market adjustment will be best facilitated if the government makes its commitment to abolition now, to take effect when general rates of interest fall. Mrs Thatcher and Mr Lawson, are you listening?

The author teaches housing studies at University College London.

LETTERS

German unification hedged about by many myths

From Mr Nicholas Hopkinson.

Sir, Your editorial "Unloved but still needed" (October 5) was right to say that the German Democratic Republic's legitimacy as a separate East German state is looking thinner than ever. Frustrated by the paucity of outlets for political expression and the inability to travel freely, East Germans' main reason for leaving their country is political, rather than economic. East Germany's legitimacy is further undermined by West Germany's offer of automatic citizenship to East German citizens.

East Germany bases its legitimacy as a separate state not only on preventing the emergence of a united Germany – which, in its short, 74-year history, began two world wars – but also on its claim to be a socialist alternative to West Germany. Since the war, East Germany has fulfilled its agenda of providing universal housing, health care, jobs, subsidised food and a relatively high standard of living. The price of the benevolent state is dictatorship and limited freedom. East Germany's relative economic success makes it less susceptible to reform. The ruling Socialist Unity Party (SED) rejects perestroika because it associates it with the economic troubles in the Soviet Union, Poland and Hungary, and because similar moves in East Germany would jeopardise its economic achievements.

The SED has successfully perpetuated the myth that a unified Germany will upset the geo-strategic balance in Europe. By accepting this myth, the media, Germany's neighbours and the super powers are aiding continued repression in East Germany. Conjuring up the old myths about German reunification fails to recognise that it was the absence, or weakness, of democracy in Germany that led to disaster in the past. Today, the absence of democracy in East Germany is the real and immediate question.

Fears of a united Germany are exaggerated because the dimensions of unification are not that large. West Germany already covers the bulk of German territory, has four times the population of East Germany and is an economic super power which, according to some projections, will have twice the gross domestic product of the Soviet Union by the year 2000. That the division of Germany has preserved the peace in the post-war era cannot be proved. Nor can Germany's *modus vivendi* as the most heavily militarised area of the world be considered stable or normal.

Although official Nato statements advocate German reunification, the super powers are afraid of losing control over developments there. Its neighbours fear that the front line will no longer conveniently be in Germany. In view of the Soviet Union's apparent preparedness to relinquish its control over eastern Europe, the emerging Soviet-Western condominium in the parts of eastern Europe where market reforms are being made should prompt the West to reconsider rather than fear reunification. Dispelling the myths about reunification could improve the prospects of East-West security and the renewal of democracy in East Germany.

Nicholas Hopkinson,
18a Stonor Road, W14

Common cause in mining

From Mr Andrew Smith.

Sir, Roger Moody (Letters, October 6) takes me to task for suggesting, in Kenneth Gooding's article on mining and the environment ("Preparing for the green decade," October 2), that big may be beautiful in the mining industries of the 1990s. I do not condone the environmental follies which "big mining" has caused in the past. Indeed, in my full report I stress that "mining and smelting is still a very dirty business which will have to clean up its act."

Meeting the growing sensitivity of developing countries to the environmental implications of resource exploration will be costly for western mining companies. Bigger companies are better able to meet these costs. It is also in their long-term commercial interest to do so. By improving waste management and pollution control in host countries, they raise the cost barrier to entry to the industry. By improving on the environmental safeguards agreed with the host, bigger companies are more likely to obtain authority for future exploration or expansion. Small, undercapitalised mining firms will find it increasingly difficult to acquire what were once easy Third World pickings.

Whether this trend will be "beautiful" or not is in the eye of the beholder. The beauty for me lies in the common interest of large mining companies and host countries. For "big mining," longer term profitability should improve. For developing countries, the economic imperative to mine resources will be balanced by better environmental insurance.

Andrew Smith,
UBS Phillips & Drew,
100 Liverpool Street, EC2

Restructuring British politics

From Mr James McFarlane.

Sir, Joe Rogaly says that Britain's economy will not be put right until its politics are restructured ("The political roots of economic failure," October 6). He is right. So long as our political parties expend their energies (and ours), each pulling down what the other has erected, so long shall we fail to keep up with those who manage – whether through proportional representation or in other ways – to keep their industry free of political zeal.

Many who defend our present political and electoral systems do so on the grounds that we have had them a long time, that they are British and that therefore they are best. They gave us nationalisation and they have given us privatisation. Foreigners who have different systems must be benighted, notwithstanding their economic success.

Other apologists point out that only our present system could have endowed Mrs Thatcher with sufficient power to correct the misdeeds of the Labour Government that preceded her. It does not seem to have occurred to them that those misdeeds could not have been committed, had not the Labour Government in its day enjoyed the same absolute power that later passed to the Conservatives. Alternation between right and left may be entertaining, but it is ultimately unproductive.

I observe that rejection of any change in the electoral system is the only thing about which Mrs Thatcher and Mr Kinnock agree. I doubt whether they can both be right.

James McFarlane,
The Court House,
Aich Lench,
Evesham

Two distinct issues in proposals for summarised financial reporting

From Mr Paul V. Boyle.

Sir, David Waller (Lombard, October 5) confuses two separate issues in discussing the Government's proposals for summarised financial reporting by listed companies. A distinction must be made between the need to improve financial reporting and the desire to provide different shareholders with information which more closely reflects their needs.

Significant improvements in financial reporting will not come from Mr Waller's prescription of "better presentation of the information which is to be found within the pages of a traditional set of company accounts." A radical reappraisal is required and there are currently a number of proposals to which innovative companies can turn for ideas.

Inevitably, because business is complex, financial reporting is also complex. Whether companies use traditional reporting methods or more radical alternatives, there will always be shareholders who lack the time or desire to study the detailed reports which companies are required to produce.

The Government's proposals are to be welcomed. They provide complete safeguards for individual shareholders who wish to obtain a copy of the full report. The proposals will, however, not represent a giant step towards better financial reporting.

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FINANCIAL TIMES

Thursday October 12 1989

RENEWED PRESSURE TO SELL CONTROLLING SHARE

Manchester United bid abandoned

By Richard Donkin in London

MR Michael Knighton, a 37-year-old property dealer, yesterday abandoned his controversial £30m ($31m) takeover bid for Manchester United Football Club, one of the best-known football clubs in Europe.

Instead he accepted an invitation to become a non-executive director of the club which can count among its former stars Bobby Charlton and George Best and has in its present squad England captain Bryan Robson.

Mr Martin Edwards, the club chairman who would have received £10m for his 50.06 per cent majority shareholding, announced the offer had been cancelled "by mutual agreement."

Mr Knighton said he had called off the bid because "I didn't think it would be in the best interests of Manchester United." He added: "There was no question in my mind that the funding was there to move ahead. The contract was watertight. It was there to be taken."

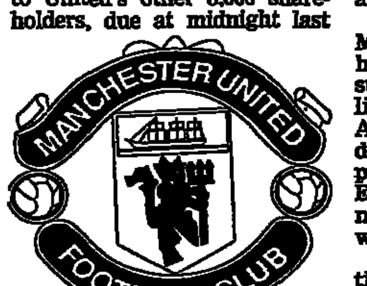
The takeover bid had attracted much publicity and excited millions of fans who follow the fortunes of the club - many of whom have never been to the club's ground at Old Trafford, Manchester, in north-west England.

The club's status as one of the world's great sporting names was based not so much on its domestic successes but on its recovery from the Munich air disaster which killed seven of its players in February 1958.

Sir Matt Busby, who before the crash had fashioned the "Busby Babes" into a world rated team, took only five years to rebuild a side that went on to win the European Cup in 1968.

Yesterday, financial advisers to Mr Knighton's company, MK Trafford, told the club they were confident they could have met the deadline for the offer to United's other 3,000 shareholders, due at midnight last night.

Own goal: Knighton heads for failure at Manchester United



The club said that at no time during negotiations had Mr Knighton sought compensation for backing out of the deal, and none was given.

The news leaves Manchester United in about the same position it was before August 18 when the takeover bid was announced.

The only difference is that Mr Edwards is likely to find himself under increasing pressure to dispose of his controlling share, possibly to Mr Amer Midani, a main board director who already has a 15 per cent stake in the club. Mr Edwards said yesterday he had not made a decison about whether to sell his interest.

The Knighton deal was initially hailed as the biggest takeover move in British footballing history, dwarfing the £6m Mr David Murray paid for Glasgow Rangers in 1988.

Mr Knighton has continually insisted, and maintained this line yesterday, that he did have the wealth to undertake the full £20m buyout, but to date he has produced little evidence of easily realisable assets. Instead in the past week the list of interested or disinterested potential backers has read like the unofficial Who's Who with money living anywhere near Manchester.

Mr Knighton had promised to spend £10m refurbishing the stadium and spoke of turning Manchester United into a £150m-a-year business within two decades. Just how this would be achieved was never quite clear and only added to scepticism among other club board members.

Mr Knighton presented himself as a man of property, though he was not quite in the tycoon class.

The withdrawal last month of Mr Bob Thornton and Mr Stanley Cohen from MK Trafford, the corporate vehicle for the takeover, cast further doubt over the bid and last week it became clear that Mr Knighton had approached Mr Eddie Shah, the media entrepreneur, and Mr Owen Oysten, the property and local radio millionaire, as potential backers.

The appearance of Mr David Murray, the Rangers Chairman, in a "support and advice" role gave some reassurance to the move. But it proved to be the opportunity that Mr Edwards needed to extricate the club from what had turned into an embarrassing farce.

Hong Kong projects announced to build confidence

By John Elliott in Hong Kong

HONG KONG construction projects costing HK$127bn ($16.3bn) by the year 2000 were announced yesterday by Sir David Wilson, Governor of the colony, in a speech aimed at rebuilding confidence in the wake of the Tiananmen Square crisis in China.

Sir David, who said the projects included a new international airport, confirmed plans for a Bill of Rights to be introduced next year to protect civil and political liberties before and after 1997.

However, he warned local people not to interfere in China's internal political affairs. He also said Peking should help to restore "mutual trust" as the "necessary cornerstone" for 1997, when Hong Kong reverts to Chinese sovereignty.

The Governor's speech, delivered at the annual opening of Hong Kong's Legislative Council, was carefully drafted "as a vision of the future" to impress both international and local opinion with the Government's determination to forge ahead with unusually expensive projects aimed at continuing the development of Hong Kong as a "modern city" and as an international commercial and financial centre long after 1997.

"We must have confidence in ourselves. Without this we cannot expect other people to have confidence in us," he said.

A two-runway international airport is to be built at Chek Lap Kok, next to Lantau island, to handle 80m passengers a year. The first runway is scheduled to open early in 1997 and will be served by a high-speed rail system, a six-lane motorway and a new town for at least 150,000 people. Some of the financing for the airport will come from a special fund being built up to help finance the first post-1997 administration.

Hong Kong's port container throughput is to be increased fivefold by 2006, and other land reclamation and development projects will push the land area 300 metres into the harbour.

The local population realises, however, that Sir David's speech can have only a limited impact because the real power to affect confidence lies in Peking which has this week started a destabilising diplomatic row about the handling of illegal immigrants.

A series of social policy initiatives was announced in the fields of education, youth development and technological training. These are primarily aimed at offsetting the effect of Hong Kong's brain drain, which is forecast to grow to 55,000 people next year.

An international business committee of overseas chambers of commerce is to be set up to co-ordinate the views of foreign companies which are essential for Hong Kong's future.

These measures drew praise from local leaders, although there was some criticism that Sir David did not explicitly promise to speed the development of democracy before 1997. He was also criticised for not openly calling for the UK to take a tough line with Peking on its controversial draft of the Basic Law which will be Hong Kong's mini-constitution from 1997.

Sir David implicitly accepted Peking's criticism of people in Hong Kong who have been helping China's political dissidents since June when he appealed for a "sense of responsibility and self-restraint."

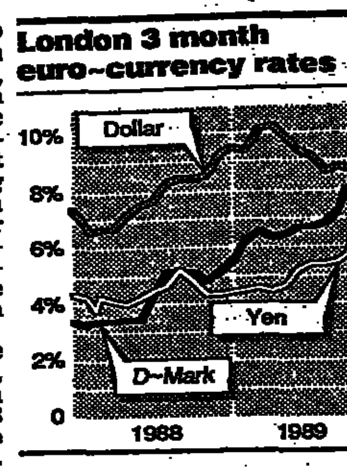
For many years, he said, "our community has recognised the importance of not becoming directly involved in China's often complicated domestic politics."

He emphasised that Hong Kong would go ahead with its plans to repatriate or resettle more than 50,000 Vietnamese boat people now in the colony.

THE LEX COLUMN

The buck doesn't stop here

Sterling, it seems, can do no right these days: up a touch against the D-Mark yesterday, but down to a 2¼ year low on the trade-weighted index. The chief culprit was the dollar, rising once more on signs that there is to be no early easing in Fed policy after all. Even the yen fell against the dollar yesterday, despite the half-point rise in the Japanese discount rate. It looks as if the G7's efforts are starting to run out of puff.



The combination of the Bundesbank's move last week, yesterday's increase in Japan and the standstill in the US might suggest an ominous rise in interest rates worldwide. The truth is probably less simple. Within the EC, which in trade terms is roughly in balance with the rest of the world, the rise in West German rates is an attempt by the region's central bank to cool European demand. But the Japanese rise seems part of a different issue: a polite reminder to the US that Japan will not tolerate the inflationary consequences of yen/dollar weakness.

It seems clear that Europe, not the dollar, remains the key to sterling. If the D-Mark does not strengthen of its own accord, thus further damping import demand among West Germany's neighbours, the Bundesbank may have to turn the screw again. In such a context, there seems little point in the Government seeking to switch attention from the sterling/DM rate to the trade-weighted index – especially if the dollar is going to ensure that the index misbehaves as well.

Volvo/Renault

It was not the 4 per cent rise in Volvo's B shares yesterday, so much as exceptional turnover – at 180,000 shares traded in Stockholm, about nine times the usual – that showed the strength of market sentiment that something big is up between the company and Renault.

It could all be wishful thinking. Swedish investors would welcome a rerun of the Asea-Brown Boveri deal, explaining why a similar combination between Volvo and Renault is Sweden's favoured rumour, involving either just their truck operations, or the strongest. That some of the strongest buying has been overseas, particularly in the US on Tuesday, adds further credence to the idea that this is more speculative froth on a share which has already outperformed the Swedish market six per cent in the last month. But despite the slightly confusing signals coming from Volvo, market sentiment seems more likely to be right than not.

True, a merger would not necessarily solve short-term problems. Volvo may need extra capacity to boost its 60,000-unit worldwide truck production, but will find it hard to get it from Renault's French factories, which are working flat out. The market's view though is that Volvo and Renault are looking to the long-term anyway. Volvo's heavy research & development budget, which has been causing earnings to droop, will see its car side all right until 1995, but could need some help after that; and the creation of indisputably the world's strongest truck producer would be enticing for both parties.

US profits

Can Wall Street move ahead in the face of static or declining corporate earnings? The experience of 1985/86, when earnings on the S&P500 fell by 13 per cent yet the market rose by 45 per cent, suggests there is no obvious correlation between the immediate health of the corporate sector and the level of US share prices. Nevertheless, the recent profit warnings from IBM, the weakness in the latest US employment data and worries about the effect of a strong dollar on profit margins have led to worries that third quarter US profits may contain some nasty surprises.

The bulk of the results will start flooding across the wires next week, but early indications are mixed. Railroads are normally a reasonably sensitive indicator of the pace of US activity and the reading from the 22 per cent decline in earnings from CSX is not particularly encouraging. Mead, a cyclical papermaker, suffered a similar sort of decline; but then again, Gannett's earnings are up 11 per cent helped by reasonably buoyant advertising revenues.

US corporate earnings growth is slowing down rapidly after two and a half years in which profits have been bounding ahead. S&P's estimate of 1989 earnings growth has been cut from 17 per cent a few months ago to 10 per cent currently and is likely to fall still further. Dividend growth has also slowed from 9 per cent in the first half to 2 per cent in the latest quarter. It is not the most encouraging backdrop for the Dow to scale fresh peaks.

Hays

There was much wailing and gnashing of teeth from Hays yesterday on being forced to float on a historic p/e of only 12, falling to around 10.5 on a prospective basis. But telling potential customers what a bargain they're getting is the oldest marketing trick in the book. Hays essentially has one exciting division – commercial: one where growth is likely to slow – personnel: and one where the prospects must be doubtful if the UK goes into recession – distribution. In normal times, its strong growth record would justify a premium to the market. But these are not normal times, and Schroders was doubtless relieved to get the issue sub-underwritten yesterday. Barring a further base rate rise, however, the issue should be safe enough.

This has not been a good year for new issues. Only 40 companies came to the main market in the first three quarters of the year, compared with 79 in the same period of 1988. And although issues on the USM have held up, the amount of money raised per issue has fallen both there and on the main market. Some companies obviously seized their chance in the bull market – 1987 was the peak year for main market issues - so we may now be seeing the gap created by earlier bunching. However, as Hays illustrates, management buy-outs usually need an exit vehicle for investors, or a need to replace debt with equity, two or three years down the line. That ought to guarantee a steady trickle of new issues in future. But the costs and risks of flotation may prompt more buyouts, like Premier Brands, to opt for an industry buyer.

UK Tories try to boost image

By Our Political Staff

THE BRITISH Government yesterday acted on two fronts to present a softer image to the electorate by announcing a £1bn package to ease the introduction of the controversial poll tax and by revealing plans for a radical shift towards a more interventionist environment policy.

The moves, announced at the the annual conference in Blackpool of Prime Minister Margaret Thatcher's Conservative Party, came as Deputy Prime Minister Geoffrey Howe said in a separate speech that the Government would have to explain its actions more fully to the electorate and show willingness to reappraise its views when necessary.

The call by Sir Geoffrey - a former Foreign Secretary still considered as a contender to succeed Mrs Thatcher as leader of the party – for "government by explanation" follows a difficult political week for the Conservatives.

Last week's decision by Mr Nigel Lawson, Chancellor of the Exchequer, to raise domestic interest rates by one point to 15 per cent failed to stem the decline in sterling at a time when some opinion polls were showing the Conservatives to be well behind the the opposition Labour Party.

In a response to intense pressure from its own party members in Parliament, the Government said yesterday that it would spend £1bn (about $1.54bn) before the next general election to cushion the impact of the forcoming reform in property taxes.

The decision was immediately attacked by Labour as "an electoral bribe" and did not even satisfy some Conservatives, who warned that marginal parliamentary seats would be lost if supporters were forced to subsidise the new taxes in high-spending, local governments..

The Government also put its plans to improve the "quality of life" to the forefront of its campaign for re-election with news of a draft law on the environment which Mr Chris Patten, Environment Secretary, said would "set our environmental agenda for the rest of this century."

Background, Page 7

Soviet forces struggle to keep control of Nagorno-Karabakh

By Quentin Peel in Moscow

SOVIET TROOPS appear to be in danger of losing control in the embattled mountain region of Nagorno-Karabakh, where armed gangs of Armenians and Azerbaijanis have taken to the hills in open warfare.

Soldiers were forced to fire yesterday on a stone-throwing crowd, killing one man and injuring six, in the town of Stepanakert, the regional capital.

Fuel supplies are virtually exhausted after a transport blockade by Azerbaijani workers since February.

They are protesting at the region being ruled direct from Moscow, instead of by their own republican government in Baku.

Threats of martial law on the railways have forced the workers to lift their blockade of the entire neighbouring republic of Armenia, in force for more than a month, but they are still stopping any movement of fuel supplies. That means Armenia can no longer fly in fuel to Nagorno-Karabakh.

The death toll in the region, where the Armenian majority is campaigning to become part of the republic of Armenia, instead of Azerbaijan, is at least 123 since last February.

Five people were reported killed last weekend, in addition to yesterday's casualty.

Television pictures show troops manning road blocks on every side of Stepanakert, searching for arms, and tanks and armoured cars in the streets.

Two days ago the official news agency, Tass, reported that "information coming from Nagorno-Karabakh increasingly reminds one of war reports. Blood is being spilt, houses are being burned, and cars are being attacked.

"Mutual hostilities and the forces of evil blind those who participate in these conflicts and undermine their reason."

The conflict has sparked furious exchanges in the Supreme Soviet, the parliament in Moscow, between Armenian and Azerbaijani deputies.

On Tuesday the Armenian deputies stormed out of the chamber in protest at the failure of the Soviet authorities to break the rail blockade and control the conflict.

They claimed that the government had still not put troops on the railways, despite the continuing refusal of Azerbaijani workers to move fuel into Armenia.

Dr Sergei Ambartsumian, of the Armenian Academy of Sciences, said that restoration work in the areas devastated by last December's earthquake was at a standstill.

He said that although the total rail blockade had ended, the lack of fuel meant that goods delivered could still not be moved from the railway stations.

On the other side, the Azerbaijani authorities have reported the capture of an Armenian civilian helicopter, allegedly found loaded with high explosives and ammunition when it landed in Nagorno-Karabakh.

Unofficial sources report daily clashes between armed gangs in both Nagorno-Karabakh, and along the borders of Armenia and Azerbaijan.

Tokyo, US close to agreeing compromise on steel quotas

By Robert Thomson in Tokyo

JAPANESE and US negotiators are close to resolving a new steel trade agreement, which will include a cut in Japan's exports to the US and the probable use of a third party to mediate in difficult bilateral disputes.

The agreement, expected to be signed in coming days, has been made easier since US negotiators relented on their demand that Japan's export quota under the voluntary restraint agreement (VRA) be slashed from 5.8 per cent of US domestic consumption to 3 per cent. It is understood that the newly agreed figure is 4.5 to 5 per cent.

Japan had argued that the old figure be maintained, but steel producers are likely to be happy with the compromise figure. Last year, with strong domestic demand, Japan's steel exports to the US were 4.2 per cent.

The negotiations with Japan and other steel exporters follow the US decision to extend a 1984 pact under which voluntary limits were set on exports to the US to assist the local industry.

That pact, which expired at the end of September, has been extended until at least the end of March 1992, and US officials have said that they want to reward fair trading countries with a quota increase and punish the unfair with a quota cut.

Talks between the US and Japan have dealt with specific bilateral problems and a more general US proposal for an international agreement on the abolition of steel export subsidies and trade barriers.

An official of Japan's Ministry of International Trade and Industry (Miti) said a consensus had already been reached on the principles of the steel trade, but a few bilateral issues and the wording of the international agreement remained unresolved.

"We have not yet reached a final agreement. One of the critical issues is who would judge our disputes with the US. A kind of third party arbitration would be suitable, with a representative from another country deciding," a Miti official said. "We have to go through the international agreement word by word, so that will take time."

Mrs Carla Hills, the US Trade Representative, will be in Tokyo today, and a spokesman for Nippon Steel, the world's largest steelmaker, said it was hoped an announcement about the pact will be made during her visit.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	19	66	Dubrovnik	C	14	57	Malta	F	21	70	Rhodes	S	23	73
Algiers	S	26	79	Edinburgh	C	14	57	Manchester	C	14	57	Rio de J'o	C	23	74
Amsterdam	S	14	57	Faro	S	24	75	Manila	C	30	86	Rome	S	20	68
Athens	F	22	72	Florence	F	17	63	Melbourne	C	16	61	Salzburg	C	11	52
Bahrain	S	30	86	Frankfurt	C	11	52	Mexico City	C	21	70	San Francisco	C	13	55
Bangkok	F	34	93	Funchal	F	23	73	Miami	F	23	73	Seoul	F	17	63
Barcelona	C	18	64	Geneva	S	12	54	Milan	S	19	66	Singapore	S	30	86
Beirut		–	–	Gibraltar	F	23	73	Montreal	R	8	46	Stockholm	C	5	41
Belfast	C	15	59	Glasgow	C	15	59	Moscow	C	10	50	Strasbourg	C	9	48
Belgrade	F	13	55	Guernsey	C	13	55	Munich	C	9	48	Sydney	S	24	75
Berlin	C	11	52	Helsinki	R	7	45	Nairobi		–	–	Taipei	F	30	86
Biarritz	S	16	61	H. Kong	S	30	86	Naples	S	20	68	Tangier	S	25	77
Bombay	S	31	88	Innsbruck	S	12	54	Nassau		–	–	Tel Aviv	S	30	86
Bordeaux	S	17	63	Inverness	F	9	48	New Delhi	S	34	93	Tenerife	C	25	77
Brussels	C	12	54	Islamabad	F	33	91	New York	S	12	54	Tokyo	R	15	59
Budapest	F	12	54	Istanbul	F	18	64	Nice	S	20	68	Toronto	C	8	46
B. Aires	F	18	64	Jakarta	C	34	93	Nicosia	S	25	77	Tunis	F	22	72
Cairo	S	36	97	Jersey	C	15	59	Oporto	S	21	70	Valencia	S	20	68
Cape Town	S	21	70	Jo'burg	F	16	61	Oslo	S	8	46	Venice	S	16	61
Caracas	C	28	82	Lima	C	20	68	Paris	C	14	57	Vienna	F	15	59
Casablanca	S	23	73	Lisbon	S	21	70	Peking	F	21	70	Warsaw	R	7	45
Chicago	F	7	45	London	C	15	59	Prague	F	9	48	Washington	S	9	48
Cologne	C	11	52	Los Angeles	C	17	63	Reykjavik	F	9	48	Zurich	C	10	50
Copenhagen	F	9	48	Luxembourg	C	8	46								
Corfu	S	20	68	Madrid	S	18	64								
Dallas		–	–	Majorca	C	18	64								
Dublin	C	16	61	Malaga	S	23	73								

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

BNL approves capital injections plan

By Alan Friedman in Milan

The board of Banca Nazionale del Lavoro (BNL), the Italian bank that is at the centre of a scandal over $1.85bn of unauthorised Iraqi export credits, last night gave its approval to plans for three separate capital injections that will total L2,350bn ($1.7bn).

The recapitalisation, already announced last month, will still need to be approved formally at an extraordinary shareholders' meeting. to be held in about six weeks time.

The aim of the exercise is to strengthen BNL's capital ratios.

The first L 808bn of BNL capital injections will come from a rights issue reserved in equal portions for INA, the state insurance concern, and INPs, the state pension fund. The price per ordinary share has been fixed at L32,400, which would give BNL a theoretical market capitalisation of around L4,000bn.

Because of the rights issue INA's equity stake in BNL will rise from its present 12.1 per cent to 20.2 per cent while that of INPs will increase from 8.5 per cent to 17.2 per cent.

The Treasury's shareholding in BNL will be diluted from 74.5 per cent to 58.8 per cent although it may rise again in a couple of months when the Treasury injects L348bn.

The final L1,200bn of fresh BNL capital is to come from a subordinated loan that is being subscribed by INA.

SECTION III

FINANCIAL TIMES SURVEY

MEXICO

The political dinosaurs among Mexico's ruling elite are being forced to recognise that their age may be drawing to a close. As **Robert Graham** reports, the main catalyst for change is the country's young and dynamic new President

Dealing with the pack

MOMENTOUS change is afoot in Mexico. The ideals and traditions of the Mexican Revolution, which has conditioned the nation for most of this century, are being quietly cast aside like an old snakeskin.

The long-serving corporatist structure of the state, held together by the corrupting apparatus of the ruling Institutional Revolutionary Party, the PRI, is being shaken up. Economic liberalisation is reducing the dominant role of the public sector and is lifting the private sector out of its cosy phase of "concessionary capital". The PRI itself has been forced to concede political pluralism and is now obliged to reorganise as its 70-year-old monopoly of power is directly threatened.

The catalyst for change has been President Carlos Salinas de Gortari who assumed office last December. The 41-year-old Harvard-educated former planning minister symbolises a generational shift in the leadership of a country where 80 per cent of the 85m population is under 40. From the start of his six year term, he has displayed an energy and a determination that has taken the country by storm: "He knows what he wants and how to get it," observes Mr Jesus Silva Herzog, a former Finance Ministry colleague. He is running the country with a group of like-minded technocrats who are precocious, gifted, and young, whose philosophy is encapsulated by the much repeated word 'modernisation'.

This is shorthand for an ambitious overhaul of society and the economy that removes the stigma of underdevelopment and integrates Mexico into the global economy. Mexico is looking away from any model in Latin America, *its aspirations now being closest* to the economic and political transformation achieved by Spain. This is a curious turn of the wheel since Mexican historians have been so critical of Spain for its colonisation of the country.

The Salinas administration's pragmatism and sheer confidence has enabled it to make light of the enormous baggage of revolutionary rhetoric which has weighed down previous Mexican governments. Gone is the complex chip on the shoulder about the powerful neighbour to the North, and at last relations with the US are on a sensible footing, suggesting much closer integration at all levels.

Old shibboleths about the evils of foreign investment are being eroded. Even land ownership, the cornerstone of the revolution that enshrined the rights of the peasant farmer, is perhaps no longer so sacrosanct as the government grapples to combat low agricultural productivity and a serious foodstuff deficit.

Opposition politicians like Mr Cuauhtemoc Cardenas, leader of the centre left Party of the Democratic Revolution (PRD) insist these changes are little more than a reaction of a terminally sick ruling party determined to perpetuate itself in a new guise. However, such a view underestimates the nature of the metamorphosis, and the risks being taken by President Salinas. On the political front, the rebuilding of the PRI could leave President Salinas with a party unable to provide the votes – either because it has not reformed itself sufficiently or because it has gone too far in dismantling the old apparatus of power. It is like redesigning a ship in the middle of the ocean. If the PRI aspires to be a modern democratic party, it has to sever its incestuous relationship with government and distance itself from the so-called 'dinosaurs' who have traditionally delivered the vote.

They incidentally were responsible for shoe-horning Mr Salinas into the lead in the allegedly-rigged July 1988 presidential election. The core of his vote then came from workers and peasants; yet now the natural constituency of President Salinas's 'modernisation' policies is precisely where PRI has been weakest; the middle-class and business community.

The pace of change is being dictated by the deregulation and privatisation of the economy. Here even the most confident members of the Salinas team such as Mr Pedro Aspe, the Massachusetts-educated Minister of the Economy are aware Mexico is moving into some unchartered waters. As in Mr Gorbachev's perestroika, President Salinas needs concrete economic results quickly to head off political disaffection and social unrest. Mexicans have been impoverished by a decade of lost growth due to the fall in oil prices and the drain on resources caused by Mexico's huge foreign debt. Incomes have fallen, in some instances, by 50 per cent; social spending has been cut with a particularly adverse impact on education, health and housing; essential investment on infrastructure (including energy, roads, ports) has been held back.

A tough stabilisation plan, initiated by the previous de la Madrid administration, has been successful in bringing down inflation. This has been largely through a pact between the government, the employers and the unions which for the past 22 months has controlled the peso-dollar parity and curbed prices and wages. The pact, extended in July until March 1990, envisages year-end inflation at 17 to 18 per cent.

The government plans a gradual easing of price controls, managing inflation through increased domestic competition, import liberalisation and a highly valued peso accompanied by relatively high interest rates. The freeing of trade restrictions has led to a surge in imports and a sharply deteriorating trade balance. Imports this year are increasing seven times faster than exports, in part due to increased activity by the private sector.

The disturbing aspect concerns agricultural imports. Mexico this year will import 12m tonnes of grain. A high proportion of this is maize, the most popular and price-sensitive item in the Mexican diet. The trade figures do however underscore the recovery in demand. The economy is growing much faster than anticipated, at close to three per cent on an annualised basis. Confident this is not a false boom, the authorities are reluctant to apply the brakes. They are aiming for an annual average growth of six per cent by 1994. Sustained recovery hinges on a mix of domestic and international confidence and access to *a sufficient flow of fresh funds* and/or debt relief.

CONTENTS

☐ *Editorial production: Dermot Martin*

The July agreement with the commercial banks covering \$53bn of medium and long-term debt – just over half the country's total foreign debt - was the first embracing the principle of debt reduction under the *'Brady Plan'*. The fact that Mexico was singled-out, reflecting both the Bush administration's commitment to a stable Mexico and the international financial community's recognition of the country's sound economic policies.

"We believe the debt agreement is sufficient for Mexico's needs for regaining growth," says President Salinas, underlining that the deal should cut the transfer of resources abroad from six per cent to two per cent of GDP. However, the precise extent of debt reduction will depend on the various options taken up by the 500-odd creditor banks in the complex package – a process unlikely to be complete before the end of the year. The deal has given a modest boom to business confidence, though Mexican flight capital remains wary. Some \$2bn of flight capital has returned and domestic interest rates have fallen nearly 20 points to around 37 per cent, so easing slightly the heavy burden of domestic debt. Yet even on the most optimistic assessment, Mexico is going to be strapped for cash.

In May foreign investment regulations were revised to reduce red tape and to expand the sectors open to foreign capital. For Mexico's size, foreign investment levels are low – approvals last year were \$3.1bn. Privatisation should attract foreign investment and the programme is being accelerated to allow resources to be channelled by the government towards social spending. The proposed sale of the copper mining concern, Cananea, will save \$500m a year. To relieve bottlenecks, some infrastructure projects will be handed to the private sector to finance, build and operate. Such is the case of a 700km superhighway from the capital to Acapulco.

In spite of all his difficulties, President Salinas's performance has been near faultless. He has exploited his authority, going ahead with the arrest of a series of individuals who under previous regimes were considered untouchable. The most prominent arrests have concerned key figures in national life that had established mini-empires or were considered to have grossly abused their positions; the powerful boss of the oil workers' union who exercised a stranglehold over this strategic sector: the former head of a shadowy now defunct state run security organisation: a prominent businessman allegedly involved in major stock market manipulation: and the nation's drug king known to be in league with Colombia's notorious Medellin cartel.

By daring to touch these untouchables, President Salinas has not only won his spurs but has also created political space for himself that allowed him to set the agenda.

Commenting on the first nine months, President Salinas says: "There is social peace, there is tranquility...there is a new sense of optimism in Mexico. "For me that is very important since the attitude of the population is fundamental in the process of change." This new sense of optimism is palpable and President Salinas is capable of taking full advantage.

KEY FACTS

Area: 1,959,038 sq km
Population: 83.2m
President: Carlos Salinas de Gortari
Real GDP growth: 1988, 1.1%; 1987, 1.4%;
GDP growth per capita: 1987, \$1,830
Inflation: 1988-89, 17.4%
Merchandise exports: 1988, \$20,657m;
Merchandise imports: 1988, \$18,905m;
Current account balance: 1988, \$2,905m;
Reserves excluding gold: \$5,279bn (1988)
Currency: 100 Centavos = 1 Mexican pesos
1988 average exchange rates: \$1 = 2,209.7; £1 = 3,936
Main destinations of exports 1988: US, 65%; Japan, 6%; Spain, 4.8%; France, 2.8%; West Germany, 2.2%
Main source of imports 1987: US 65.7%; West Germany, 6.5%; Japan, 6.4%; France, 2.2; UK, 2%
Structure of long term debt as % of total, 1988: Official creditors 20.1%; Private creditors 79.9%

The transition to democracy, as the PRI hegemony crumbles, is long awaited, says Lucy Conger

Bitter spark of the Cardenas phenomenon

THE POLITE ceremonials characteristic of Mexican political institutions are becoming a distant memory after the formation in late August of the country's most pluralistic Congress to date. It is a Congress hoping to expand democratic practices.

Yet one month into its term, opposition congressmen cheered one another as they bombarded ruling-party deputies with charges of blocking a genuine political change and designing a rigged reform package.

Turbulent sessions in Congress are symptomatic of the dramatic political changes in Mexico as the Institutional Revolutionary Party (PRI) has been forced to share the spotlight, and watch the control of events slip from its grasp.

Time will tell whether PRD can crystallize its potential for becoming a national party or end up a regional one

As the opposition parties begin to exercise their will Mexico stands at a crossroads.

The hegemony of the long-ruling PRI is crumbling and could give way to a peaceful transition to democracy.

Mexicans across the political spectrum agree the July 1988 presidential elections were a watershed. Results ultimately gave victory to PRI candidate Carlos Salinas de Gortari. But the strong showing of centre-left coalition candidate Cuauhtemoc Cardenas, who millions of Mexicans believe won the fraud-riddled election, made the unthinkable conceivable. For the first time since 1929 the PRI is not invincible.

The Cardenas phenomenon has sparked bitter enmity among PRIistas who are busily devising ways to obstruct his party's progress.

The elections created a *realignment* of forces that will shape the political debate and quicken competition for constituencies throughout the six-year term of President Salinas.

The PRI holds centre ground politically while shifting right in economic policy. It has abandoned the social programs and independent foreign policy stands that have traditionally upheld the PRI's claim to be the inheritor of the Mexican Revolution of 1910.

In the election PRI's turnout was strongest among less-educated, "backward" constituencies in remote rural areas. The party lost votes in droves among urbanised, educated voters.

PRI remains deeply divided between "dinosaurs" old party hacks who occupy powerful positions in PRI's corporate organisations of workers, peasants and urban self-employed workers, and "renewers," largely technocrats who lack experience in politics.

Dinosaurs resist innovations promoted by youthful renewers such as elections among rank-and-file to select party candidates, preferring instead closed-door negotiations for apportioning candidacies for municipal, legislative and gubernatorial posts.

Some analysts believe dinosaurs currently have the upper hand because of the government's vacillating commitment to a deep political reform.

While the renewers are casting about for new ways to appeal to the electorate, dinosaur operatives have been instrumental in perpetrating fraud to secure PRI victories in elections against the Cardenas party.

At centre-left is the Party of the Democratic Revolution (PRD), headed by popular Cuauhtemoc Cardenas, who officially collected 31 per cent of the national vote and has a near-mystical appeal among Mexican electors. A fusion of PRI defectors and the former Mexican Socialist party coalition of communists and socialists, PRD has not coalesced since securing formal registration in May.

In-fighting is hampering definition of a PRD program, and the party remains divided over strategy for co-operating with government to advance party positions.

Salinas: guile and intellect needed on the road to recovery

PRD has channelled discontent with economic policies and the anti-PRI sentiment of the educated middle sectors and masses of urban and rural *poor through protesting over* sweeping, rapid economic liberalisation and defending the interests of workers and peasants, staking out its claim as the rightful inheritor of the Mexican Revolution.

Time will tell whether PRD can crystallize its potential for becoming a national party or whether it will end up as a regional party. PRD is looking toward major victories in the mid-term 1991 Congressional elections where opposition parties, *combined, have a chance* at capturing a majority of the Congress.

It also has its sights fixed firmly on the 1994 presidential race, when, PRD believes, a rickety and discredited PRI will be running against its own bad record.

The political right is occupied by Mexico's senior opposition group, the National Action Party (PAN), which had cause for celebration in its 50th year with the historic July victory *of PANista Ernesto Ruffo* Appel in the Baja California governor's race. On Nov. 1 Ruffo becomes the first opposition party governor in the 60-year reign of the PRI and its predecessors.

A regional party especially strong among middle and upper classes in industrialised, urban northern border states, PAN's program of less government, economic liberalisation and expanded private initiative has been largely pre-empted by Salinas. Currently split between old-line PANistas who behave like a loyal opposition and the aggressive, business-class "neo-PANistas," the party is exercising new-found leverage as the swing bloc in Congress that can tip the balance, securing or blocking a two-thirds vote for or against the PRI.

Across the political spectrum, the troublesome question now is whether political parties will be able to compete in elections on an equal footing. President Salinas's National Development Plan pledges a political reform that will assure "unrestricted respect for the popular will expressed in elections" and expand political party participation in monitoring of voting.

The political reform debate in *Congress* has become entrenched over the composition of an independent elections review board. Bad faith caused by Mexico's rich history of fraudulent elections has generated a rare unification of the opposition.

PAN, PRD, the Party of the Authentic Mexican Revolution and an 11-member independent parliamentary group are backing a compromise proposal for an independent elections board, separate from the government, comprised of PRI and government representatives, opposition party delegates and independent citizens. It would operate under a formula that would prevent all parties from securing a majority on the commission.

The opposition coalition commands 175 votes, enough to

Mexicans across the political spectrum agree the July 1988 presidential elections were a watershed

prevent the PRI from securing the required two-thirds vote to pass its proposal for a review board made up of representatives of the executive and legislative branches designated by the government and Congress.

The PAN-PRD opposition bloc proposal also calls for reforms to establish fair political competition by assuring that no party has unfair access to public funds and that party affiliation is voluntary and individual — provisos that imply the end of the PRI as the party of the state and a collapse of corporatist organisations whose members are obliged to join PRI.

While debate over the new rules of the political game grinds on, it remains a truism that the Alpha and Omega of the Mexican Political System is the Presidency. Salinas moved with near-lightning speed to put his imprint on the Presidency, making bold strikes that brought to heel powerful labour bosses, exalted financiers and feared drugbarons.

The legitimacy he lacked owing to marred elections he has overcome by developing authority through the exercise of power.

In his first year in office, Salinas's success has been far-reaching enough to cause concern among some observers who point to a "resurgence of coarse presidencialismo and authoritarianism," writes political analyst Adolfo Aguilar Zinser in Excelsior.

FOREIGN DEBT

Contradictions of Brady plan cause concern

THAT AN agreement on the debt package was ever reached at all was a considerable achievement. If neither Mexican officials nor their bank creditors are satisfied with the outcome, that perhaps is to be expected.

Yet if it was widely believed some months ago that the Mexican debt would provide the blueprint for those debt deals to come, few would hold that view today. For it is now clear that from whatever perspective the accord is approached, significant potential problems manifest themselves.

Some are intrinsic to the Brady initiative, the new international debt strategy launched by the US *Treasury Secretary* in March; others are special to the way the Mexican deal has been structured.

The agreement struck between Mexico and its 15 leading banks covers $52.7bn in

Whatever perspective the accord is approached potential problems appear

medium and long-term bank debt — over half of Mexico's $100bn foreign debt — and has yet to be approved by the country's roughly 500 bank lenders. Even that should not be taken for granted. Under it, banks have two options: to make loans over a four-year period equivalent to 25 per cent of their exposure, or to swap their loans for one of two types of bonds.

Those bonds either carry a face value discounted by 35 per cent and close-to-market floating interest rates, or a fixed-rate below-market coupon of 6¼ per cent and a face value of par.

These 30-year bonds are backed by some $7bn in official resources, including funds from the International Monetary Fund and World Bank, which will collateralise principal and cover between 18 and 24 months of interest payments in case Mexico defaults.

The banks' dissatisfaction with the Brady proposals in general should not be a surprise, since the initiative recognises that ability to pay should be a factor in deciding how much a debtor country should pay.

The corollary of this is write-downs of loans in banks' portfolios.

The other implication is the lifting of the veto that banks have exercised on financing packages, which means a shifting of the balance in debtor-creditor negotiations away from the banks.

Only after recent changes to the rules of the International Monetary Fund has the Fund been able to lend without banks having finally agreed to a debt package.

More specifically, Mr John Reed, the chairman of Mexico's largest bank lender, Citicorp, has pointed to what he sees as other flaws in the Mexico arrangement. He is not, for example, enthusiastic about the way the 35 per cent discount was negotiated within the bank advisory group.

This process alienated some banks, not least because of arm-twisting from the US authorities that was necessary to get the 35 per cent discount agreed.

Bankers also see the structure as reducing the universe of Mexican lending banks too severely. About 80 per cent of the country's bank creditors are expected to take one of the two bond options, for most intents and purposes leaving the Mexican scene.

As the Brazilian finance minister has remarked, the agreement severely limits Mexico's future flexibility if it needs concessions from creditors in the future. Having agreed not to reschedule again 80 per cent of its bank debt, it *would have* to rely on a small group of lending banks and official creditors.

Thus it is *not* only banks which prefer the approach taken in negotiations over the Philippines' debt. If and when that agreement is concluded, the country will have reduced its creditor bank group by a significantly smaller percentage than will have Mexico.

This will be accomplished by *using the official resources not* to collateralise bonds, but simply as cash to buy back debt. This eliminates one potential problem faced by Mexican lenders: the difficulty of evaluating the substitute bonds.

However, neither agreement overcomes the basic objection that while the debt strategy remains "voluntary", in other words, while banks are not forced to accept imposed discounts, the Brady initiative remains underfunded and too narrow in scope. Thus in the Mexico package, some banks must make new loans if the official support is to be sufficient to go around. Even then the proposals affect only half of the total foreign debt of Mexico, and even less on those countries such as the Philippines where bank debt accounts for a smaller proportion of the country's foreign liabilities.

In the Mexican case, the *great contradiction of the* Brady initiative emerges. In spite of the supposed change in the focus of the debt strategy towards debt reduction and away from providing new loans, Mexico's nominal foreign debt is likely to rise after the package.

An estimated 20-30 per cent of Mexico's banks are likely to take the discount bond option, reducing Mexico's debt by at

The banks' dissatisfaction with the proposals should not be a surprise

most $7bn. A further 50-60 per cent of banks are expected to take the 6¼ per cent bonds, helping to reduce the country's outflows but not its nominal debt.

At the same time, it is borrowing some $5.7bn from official sources to back the substitute bonds and a further $2bn from banks in new loans.

Thus it may not be possible to say that Mexico has achieved a "critical mass" of debt reduction, sufficient to remove the debt overhang which the IMF only this year admitted might condemn a country to indefinite low-growth.

It is certainly too soon to be sure that the Mexican deal will be completed, *and the big* round of provisions announced in September by the large US banks may have clouded the picture. However, the balance of probability is that it will be completed, helping to restore some essential *confidence* at home in the Mexican economy.

Of course, this is only a necessary and not a sufficient condition for a long-lasting Mexican recovery. As the IMF does not tire of stating, debt reduction of itself is no panacea and the measure of success of the Brady initiative will only be if it produces the incentive to continue with economic reform.

Stephen Fidler

Economic signs are good, reports **Richard Johns**, but the tequila must stay on ice

Unsteady steps on the road to recovery

MEXICO can leave the crisis behind, declared President Carlos Salinas de Gortari when he triumphantly announced the conclusion of the agreement in principle on re-scheduling of the country's public sector debt to the commercial banks on July 23.

That remains to be seen and will depend on variables such as oil prices, interest rates and the performance of the US economy – all beyond the control of his administration. Mexico's dynamic young leader was wise to warn of the need for continued discipline and austerity.

In May 1988 he said: "If we don't grow because of the burden of the debt we don't pay." In the event the Mexican economy grew by 2.5 per cent in the first half without any debt relief and the prospect for the year is an increase of 2.9 per cent compared with the budgetary projection of 1.5 per cent. The question is whether it can sustain such a recovery without risking the stability so *painfully achieved over the* past few years and incurring an unsustainable deficit on the current account of its balance of payments.

Attainment of a growth rate of 6 per cent by 1994 will be arduous, fraught with political and *social tension* after six years of economic stagnation in the 1983/8 period and a fall in real earnings for the decreasing proportion of the population of working age. The outline accord concluded by the 15-member bank advisory committee, headed by Citicorp, fell well-short of Mexico's initial negotiating demand for a 55 per cent cut. It should lead to a 35 per cent reduction in the principal or interest rates on at least 80 per cent of $57.6bn of commercial bank debt out of total external obligation calculated at $97bn.

It is generally regarded as the best that could have been obtained – not the least by Mr Jesus Silva Herzog, the former Minister of Finance, dismissed in 1986 after warning in the midst of the last re-scheduling exercise that Mexico might have to suspend interest payments.

Pessimistic forecasts put the saving in interest rates at a little over $1bn after servicing enhancement and financing of $5.7bn provided by the multilateral organisations and Japan. It was needed to underwrite *the 30-year bonds* Mexico will issue in exchange for old debt. Moreover, the indications are that only 10 per cent of the banks rather than the 20 per cent assumed in the Government's macroeconomic projects will choose, like Citicorp, the option of providing fresh finance. Both in Washington and Mexico City there is growing concern on this score.

New commercial bank lending on an adequate scale is considered an essential component of the large capital inflow needed to cover the increase in the current account deficit inevitable if growth is to be increased on the scale planned. On the positive side the loan agreements with the IMF and the World Bank should ensure a flow of multilateral and official aid at annual rate of 2.5 to $3.5bn to the end of 1992.

As Mr Salinas pointed out, there could have been no bigger *vote of confidence* in the accord than the 20 per cent fall in its wake of Mexico's extraordinarily high interest rates. Certainly, the deal should make it possible for Mexico to reduce net transfer of resources abroad from an average of 6.3 per cent of GDP during the last *sexenio* to 2 per cent by 1994.

The Government has not *explained* that the rate had come down from 13.5 per cent in 1983 to 3.4 per cent in 1988, anyway. In spite of the criticisms the deal has fortified the credibility won by Mr Salinas's administration as a result of its continuation and consolidation of the stabilisation programme begun by the previous regime of Mr Miguel de la Madrid.

Inflation has been steadily brought under control since the original pact freezing prices and controlling the rise in the minimum wages came into force in March 1988.

From a rate of 159.2 per cent in 1987 it was reduced to 51.7 per cent last year, according to the Bank of Mexico's consumer price index. Up to August of this year it has been calculated at 11.5 per cent and 16.9 per cent on an annualised basis.

Extension of the Pact for *Economic Stability and Growth* (PECE) for a further nine months from July of this year to the end of next March has been another factor for confidence. The increase in the minimum wage has been limited to 6 per cent while some selective price increases are to be permitted.

Last month's announcement of a rise in electricity tariffs for domestic consumers was of importance for the future given the wasteful nature of a subsidy system – in itself running counter to basic budgetary principles – of benefit to rich and the poor alike.

Fiscal discipline has been tightened. Mr Ernesto Zedillo Ponce, *Minister of Planning* and the Budget, says he is on target towards the objective of a 7.3 per cent primary budget surplus (excluding interest payments), as spelt out in the IMF letter of intent and compared with one of 7.6 per cent achieved in 1988.

The Government succeeded in slashing its fiscal deficit by half in spite of heavy cost of domestic borrowing and of subsidies. And the expansion of basic money supply has been kept well within the limits of inflation. During the first half of 1988 revenues have been raised by 3 per cent thanks largely to an impressive 22.6 per cent increase in the Government's tax take.

Against this, was a decline *in proceeds from VAT* because of unresolved complications with the state governments, according to a clearly angered Mr Pedro Aspe, the Minister of Finance. More mysterious and inexplicable in terms of petroleum export revenues which should have been up by half or more on the $10 per barrel forecasted in the budget was the 4.6 per cent fall during the first half of proceeds from Petroleos Mexicanos, the state oil corporation.

As the Government has tightened the squeeze, private sector expenditure has been responsible for the overall growth and recovery – reflecting a strong liquidity position of the main groups, the challenge of foreign competition, and confidence in the future.

The performance of the industrial sector has been particularly strong with gross fixed investment up by 10.8 per cent and the sector's general index of production by 5.3 per cent on annual basis at mid-1989. Over the 12 months manufacturing activity rose by an impressive 7.1 per cent with capital goods (22.6 per cent) and in-bond assembly (16.6 per cent) generating most of the growth, construction by 4.6 per cent and electricity by no less than 10 per cent.

This has been achieved at the cost of a rapid deterioration in Mexico's trade balance. In the first six months the surplus was down to $85.4m compared to $2,391.5m in the same period of 1988. The decline was only partially off-set by an increase in the value added from in-bond processing from $1.04bn to $1.41bn.

In the first seven months the deficit on current account was $2.5bn (compared with $933m at end-March). With the growth momentum built-up over the year as a whole it could be higher than the $4.8bn projected in the Government's budgetary macroeconomic targets for 1989 while foreign reserves were at just over $6bn.

The central bank reported capital repatriation of $2.31bn upto the end of July. But economic observers believe most to have been corporate liquid funds pulled back to take advantage of the extraordinarily high interest rates. The Government is looking to a large increase in the foreign investment not only to create growth and create jobs but also to cover the widening current account deficit.

Response to the liberalisation of foreign investment regulations has been very positive. Investments totalling nearly $2bn were approved in the four months or so since the issue of the decree in May, says Mr Puche.

He stresses also that the figure does not include petrochemicals, a sector which has been the focus of intense interest of foreign and domestic companies since the number of basic products reserved for Pemex was reclassified and reduced from 34 to 20 (as discussed on page 4). Disbursement of authorised and committed investment takes time.

In the meantime, with labour unrest mounting and the regime's grip on the union movement slipping Mr Salinas and his colleagues must go for maximum sustainable growth. The danger is that if the deterioration of the current account is allowed to get out of hand the Government could be forced to take measures undermining its credibility – for instance an adjustment of the exchange rate. There could even be a drastic modification of the policy of *apertura* or opening up the economy to foreign competition.

Although the skilful management of the economy by Mr Salinas and his economic team makes, this seem unlikely the prospects of a combination of factors or just one – like a Mexican equivalent of the the Caracas riots – forcing Mexico back to the negotiating table cannot entirely be ruled out.

● President Salinas, in an interview with the FT, identified four areas of concern:

ECONOMIC GROWTH: "We are expecting a growth rate of 2.5 per cent in real terms and *we had considered one of* between 1 and 1.5 per cent. We do not want the the recovery to be too fast because the lack of investment in previous years means that we could find shortages and bottlenecks."

INFRASTRUCTURE: "We opened the building of modern roads to the private sector. The response has been impressive. The four-lane highway from Acupulco to Mexico City will cost $700m and has already been totally covered by the private sector."

WAGES: "It depends on the rate of growth we can achieve next year. If it is above population growth, that means that we will be beginning to generate more employment. At the same time it means that real wages will improve."

STRUCTURAL CHANGE: "It has enabled us to maintain discipline and a reasonable degree of stability in public sector finances and at the same time increase the efficiency of the economy acheiving our goal of participating more in foreign markets. We have made important improvements in structural change. We have not finished yet."

BUDGETARY PLANNING

Juggling limited options

LAST YEAR the Mexican public sector investment as a percentage of gross domestic product sank to the lowest level for 50 years ago, according to one well-informed and independent analyst who prefers not to be quoted by name.

"I haven't made that computation – but it was low", Mr Ernesto Zedillo Ponce, the Minister of Planning and the Budget, commented to us in a recent interview.

It fell from 10.6 per cent of GDP in 1982 to 3 per cent in 1988 during the sexenio, the six-year term of office, of President Miguel de la Madrid who inherited an unenviable legacy from President Jose Lopez Portillo in the wake of the 1982 financial crisis.

Mr Zedillo says that public sector investment should grow in real terms by 9 or 10 per cent annually from the depth reached last year.

As the minister most directly concerned with apportioning limited development funds Mr Zedillo seems remarkably unperturbed by what would appear to be the agonisingly limited options open to the administration. It is faced with an equally onerous bequest resulting from the enforced austerity of the De la Madrid era but committed to even greater fiscal stringency.

Over the last sexenio there was little more than zero growth as the population grew by some 12m to an estimated 87m. While incomes of those employed in the formal economy fell by 40-50 per cent in real terms it is estimated that only about one third of the 5m young adults entering the labour force found jobs.

According to official statistics, unemployment rose from 5.8 per cent to 13.5 per cent *but one recent study by the* respected Ciemex-Wharton consultancy put it as high as 25 per cent. Poverty and malnutrition, meanwhile, have become grave problems especially in rural areas.

The agriculture sector, essentially stagnant for the past two decades, poses the gravest problems.

Its revival cannot be left to private enterprise and foreign investment upon which the administration is relying as the main vehicles for the recovery of economic growth and provider of employment.

The Government is looking to them to play a leading role in the improvement of infrastructure by building highways on a concessionary basis. It hopes to sell at least half its share in Telefonos de Mexico, the state-controlled telephone group, which needs $10bn to modernise and expand.

Mr Zedillo points to privatisation of assets such as the Cananea copper mine, as part of the state's far from complete *dis*-investiture programme, that will provide income and relieve public exchequer of the cost of subsidising loss-making entities.

The 1989/94 National Development Plan, for which Mr Zedillo was largely responsible, is an admirable statement of the Government's broad policy objectives but gives no indication as to how available funds will be allocated on a sectoral basis over the next five years.

In a recent interview he stressed that the plan was "indicative" and investment priorities would be decided upon annually as budgets were drawn up.

Mr Zedillo singled out the following priorities.

Energy: "*Demand for electricity* is growing at a rate of 10 per cent which is tremendously high. We have to incorporate provisions in the budget to accelerate investment in the electricity and oil sectors". With reference to the fall in Pemex's production capacity, he said that would be necessary "to sustain a dynamic pace of exploration and primary exploitation of resources."

Education: "We have been able to cover almost 100 per cent of primary education but we have a deficit in secondary education and, most important, the quality of our educational system leaves much to be desired."

Health Services: "There has been an increasing gap in our health services and we have a problem of quality. It worries us and we have to spend a lot of money here."

Agriculture: "We have had a decreasing investment in that which explains the lagging productivity and production. In 1990 we have to channel increasing resources to it." Mr Zedillo made it clear that the present administration has no intention of modifying its policy of subsidising basic food stuffs.

The Government was spending about 3,500bn pesos ($1.7bn) on food subsidies, an increase in real terms. One main reason was that the price of tortillas, the maize bread which is part of the Mexican staple diet, had been frozen since 1987 but the price of corn had risen significantly. A second had been the increase in dried milk, of which Mexico is the biggest importer in the world.

Asked about the philosophy of the plan and whether it was based on a continuation of concessions he replied sharply: "It is very clearly stipulated in our Constitution what the function of Government is. Government is to promote democracy, liberty and sovereignty and to promote the basic well being of the Mexican people. I would say that this the basic philosophy.

"Other than that we have a very pragmatic approach to economic policy. It would be very hard to label the Mexican economy with *traditional* labels."

Richard Johns

PLANNED SECTORAL GROWTH
Average Percentage increase*

	1983–88p	1989–91e	1992–4
Construction	(4.3)	3.7–5.6	7.1–8.0
Electricity, gas, water	4.2	4.5–5.5	6.8–7.5
Manufactures	0.2	3.4–4.0	5.7–6.3
Transport, communications etc.	1.2	3.1–3.8	5.2–5.9
Communal, social services	0.8	2.9–3.6	4.9–5.3
Agriculture, forestry, fishing	0.8	2.3–3.0	4.5–4.9
Commerce, restaurants, hotels	(1.6)	2.3–3.0	4.5–4.9
Financial services	3.7	2.4–2.8	4.3–5.2
Mining	0.4	2.2–2.6	3.9–4.4
Gross Domestic Product	**0.1**	**2.9–3.5**	**5.3–6.0**

Figures in brackets are negative
* Calculations on the basis of 1980 constant prices
p: Preliminary
e: Estimated

Source: National Institute of Statistics, Geography and Information

Relations with Washington are improving; **Andrew Marshall** puts them under the microscope

A past imperfect: a future less tense

HONEYMOONS can add a lot of stress to a relationship: halcyon days generate expectations that cannot always be met.

Both US and Mexican officials dislike the metaphor, which has been applied to the bilateral ties between their two countries since Carlos Salinas de Gortari in Mexico, and George Bush in Washington, were elected to the Presidencies of their countries last December.

But there is no doubt that relations have been very smooth, in public at least, and expectations have been raised high. The two Presidents have established "a new relationship of friendship free of myths and mistrusts," said Mr Salinas on his state visit to Washington earlier this month.

The bottom line for Mexico is that it needs more investment, secure access to the US market for its goods, and the favourable influence of the US in international financial circles. For the US, a deterioration in relations in the mid-1980s coincided with a period of grave concern over the political and economic stability of its nearest neighbour.

Mexican officials speak highly of Mr Bush, who has repeatedly stated the high priority he places on Mexico; of James Baker, his Secretary of State, and especially of Lawrence Eagleburger, Under Secretary of State, who is "a very key personality," a Mexican official says.

Mr John D Negroponte, the new US Ambassador in Mexico, has settled in and has been well-received, despite initial controversy about his background in Honduras and Vietnam. Bernard Aronson, the new Assistant Secretary of State for inter-American affairs, is seen as much more sympathetic than Mr Elliot Abrams, his ideologically zealous predecessor.

The bottom line for Mexico is that it needs more investment

Mr Salinas, who has moved very quickly to exert his authority, has made a very good impression in the White House and with US business.

Not only do his plans for reforming the economy resonate in Washington; he has proved himself a highly competent politician, by, for instance, dealing promptly with the leader of the oil workers' union. The smack of firm government can be heard clear across the Rio Grande.

But aside from the personal dynamics, there is a hard core of substance to the improvement in US-Mexican relations. The present Mexican government is, as Jorge Castenada, academic and co-author of a new book on US-Mexican relations, points out, the most pro-American for decades.

Aside from its economic policies, it has increased co-operation with the US on illegal immigration, carrying out two "sandwich" operations on the border this year in conjunction with the US; and tightened up on drugs, arresting Miguel Angel Felix Gallardo, the Mexican drug trafficker and making well-publicised seizures.

Washington has used its political weight to help bring about the much-trumpeted deal on the country's debt, with the banks as very reluctant partners. Indeed, the Brady Plan - the US blueprint for reducing debt and debt service - seemed tailor-made for Mexico, and may have little application elsewhere.

One factor easing agreement at the political level has been the removal of one of the thorniest of – the war in Nicaragua. The US seems to have dropped Central America, a cause of frequent friction, by several points in its order of priorities, as it has raised Mexico.

But there are certain structural problems in relations that will not go away: undocumented Mexican immigration into the US, for instance, has started to increase again this year. This follows two years of reduction after the the 1986 US Immigration and Control Act. The focus of activity is the border between San Diego and Tijuana.

Drug smuggling across the border also appears to be increasing, and in the same area. Earlier this year, the Drug Enforcement Administration, while citing an improvement in overall Mexican efforts, expressed concern over corruption observed in joint programmes.

the Brady Plan was not enough to fulfill Mexico's needs

Mexico, for its part, will want greater preferential access to the US market, particularly as it opens its own markets. "The process Mexico has gone through will necessarily involve increased integration with the US, said Sidney Weintraub of the University of Texas earlier this year. There has been some progress, with bilateral agreements on textiles and steel, and the establishment of a disputes settlements procedure.

But "the permanence of economic openness in Mexico depends on our having reciprocity in other markets," Mr Salinas said before he left for the US earlier this month.

Trade was one of the key issues raised by Mr Salinas in Washington. "Few economies have opened up as much and as rapidly as Mexico's. A similar opening of the American market would not only represent reciprocal treatment, but a stimulus to our new friendship," the Mexican leader said.

He praised Bush for open and substantial dialogue and said it signalled "a new relationship of friendship free of myths and mistrusts".

Mexico has a $2.7bn trade surplus with the US.

There are, too many limitations on US power for promises of largesse to be made and kept. Despite the strongarm tactics of the White House, the deal done under the auspices of the Brady Plan was not enough to fulfill Mexico's needs.

Though it was arguably the best deal that could have been done, it was certainly not the deal that Mexico wanted. Washington's ability to help out with aid or trade concessions will also be severely limited at a time of fiscal stringency and trade deficit.

There are plenty of people on both sides of the Rio Grande who would like nothing better than to see the fragile equilibrium upset. In Mexico, there are rumblings of discontent about the government's willingness to follow the US path of liberalisation and privatisation.

In the US, too, there is some unhappiness about the apparent cosiness of US-Mexican relations. Critics of the present administration – most of them from the conservative right – say that there is little point in aiding Mexico while its economic and political structures remain substantially unreformed. The question of Mexico's political system and its democratic values will remain highly explosive.

The real question for the US and Mexico, then, is not how well they can get on when things are rosy, but how easily the bumps and potholes of a rocky relationship can be ridden.

As Jorge Castenada wrote: "Because of asymmetries, complexities and history, ties between the two nations, while manageable, are not really improvable."

The system has had very few shock absorbers in the past. Now, both parties profess to have changed their approach. The Mexicans exude a new air of confidence, and a desire not to let relatively minor issues cloud a crucial agreement.

"Living with the Americans is like sleeping with an elephant"

The US seems intent on pursuing its interests on a longer-term basis, not confronting the Mexicans. A US official talks of a "willingness to find practical solutions through non-frontal approaches".

It is sometimes suggested that, given sufficient political will, the United States relationship with Mexico could become more similar to that which it enjoys with Canada.

Good political relations between Canada and Washington have come with very close economic integration, and Mexico explicitly rules out a Free Trade Agreement of the type which Canada made last year. "It is not in our interest and we will not follow that path," says one senior Mexican official, though he does anticipate greater integration in particular sectors.

But there are certainly lessons to be learned from the Canadians. Mexican officials refer, joking aside, to an analogy made by Pierre Trudeau, Canada's Prime Minister in the 1970s.

"Living with the Americans is like sleeping with an elephant," he said; "even if it is trying to be affectionate, it can crush you."

Given that two-thirds of Mexico's trade and foreign investment is linked to the US, there is little doubt its immediate and long-term economic future is directly bound up with that of the US. Mr Salinas is said to question all visiting US businessmen on the state of the US economy. Macro-economic policies made in Washington have a profound impact on livelihoods, and thus politics, south of the border.

Mr Salinas can hope to implement his ambitious proposals for liberalisation and economic restructuring as long as the climate in the US is propitious, but if the economic rug is pulled out from under him, then expectations will have to be substantially reduced. The US economy is something that Washington has little grip on at the best of times. As Professor Weintraub says, echoing Mr Trudeau: "What we do to Mexico deliberately is far less important than what we do by accident."

The world's fourth largest oil producer must import petrol; **Richard Johns** finds out why

Staggering from crisis to stagnation

THIS year Mexico, the world's fourth-largest oil producer in 1988, has undergone the embarrassment of having to import petrol at a cost to the balance of payments estimated at as much as $1bn.

Since the fall in oil prices at the beginning of the decade precipitated Mexico's financial crisis of 1982 and six years of stagnation, the country has progressed far in diversifying its economy and exports.

While reduced dependence on petroleum has been a healthy development – as well as an essential one in the short-term – the oil sector still remains a vital source of foreign exchange and, even more so, of state revenue.

Yet, largely as a result of the fiscal demands made upon it by the Government it has been allowed to decline drastically to the point that production capacity has been lost and the level of proven hydrocarbon reserves of oil and gas has stagnated. At the core of the oil and gas sector is the vertically integrated, monolithic, and bureaucratic state oil corporation Petroleos Mexicanos (Pemex). It is ranked 11th in size worldwide but has had to devote a rising proportion of its income to the state.

It has also been weighed down by debt incurred in the days of expansion a decade ago, gross over-manning and, until recently, the shackles imposed upon it by rapaciously powerful unions.

A survey last year of 50 oil companies worldwide showed Pemex to be bottom in the league with earnings per employee of only $73,000 compared with $187,000 for Petroleos de Venezuela, a comparable state corporation which was also lowly placed.

The Pemex refinery at Cangrejera, ranked 11th largest in the world, has in the past had to act as a state benefactor.

Thus, Pemex has failed to provide the expansion in capacity needed to satisfy an increase in demand for gasoline (priced at an unrealistically low-level because of the Government's anti-inflation policies), outstripping by far this year the country's modest growth recovery.

Only in June did it acknowledge that because of a sudden 8 per cent rise in demand late last year it had been obliged to import at the rate of 36,000 barrels per day(b/d) to make good the shortfall.

Its export target is 1.325m b/d. In the first quarter of 1989 it achieved an average of 1.328m b/d but for the January-August period the rate had fallen to 1.294m b/d.

The reason was not its failure to market the crude, despite tougher competition in the US market from Saudi Arabia and Venezuela, but simply that it could not produce more without causing damage to reservoirs.

Production in 1988 was just over 2.5m b/d, with exports slightly in excess of 1.3m b/d (earning $6.7bn or an average of nearly $12.24 per barrel) compared with a peak of 3m b/d in 1982 when revenue from oil income was $16.7m.

Natural gas production has been declining with Pemex budget projecting an average of 3.49bn cubic feet daily in 1989 compared with 3.41bn last year. Over the 1982-8 period it fell by 40 per cent.

Although more exploration wells were drilled last year – 33 compared with 27 in 1987 – proven reserves of oil, condensate and gas were estimated at the end of 1988 to be the equivalent of 67.6bn barrels, a decline of 2 per cent and down from 72.0 bn in 1982 – which the left-wing opposition has alleged to be more than double the actual amount.

Development of deposits in the Chicontepec field in the east of the country accounting for 26 per cent of reserves is not considered commercially viable at current oil price. The limited development taking place is being concentrated in the more easily exploitable offshore fields reckoned to contain 47 per cent of reserves.

Mexico's depletion rate is being viewed with increasing concern by the industry and economists but the Government does not regard Pemex's investment requirements as a low priority for the time being – while the management regards it as its highest priority – and as being strictly subordinate to the need to increase the primary budget surplus.

It effectively controls Pemex's budget with six board members appointed by the President compared to five by the petroleum workers.

In 1988 the Government's direct tax-take (not including extraction charges and VAT on internally distributed products) amounted to 13,405bn pesos ($5.89bn at the exchange rate then prevailing) – or just over 30 per cent of state revenue and 45 per cent of Pemex's income of 29,941.9bn pesos.

For 1989 it was expected to contribute 14.75bn pesos, or 18 per cent on the assumption of oil revenue of $10 per barrel but in practice its share of the total will be much higher because of higher than expected prices.

A survey of 50 oil companies worldwide showed Pemex to be bottom in the league for earnings per employee

This year Pemex's investment budget was cut by 10 per cent to a level comparable in real terms to that of 1973 when Mexico was only producing 600,000 b/d. The corporation planned to complete only 14 exploration wells in 1989.

In May Pemex announced the completion of the 48-inch pipeline across thee Isthmus of Tehuantepec financed in part by the Japanese Export-Import Bank and designed to transport Isthmus crude for processing at the Salina Cruz refinery which is undergoing an expansion in capacity.

However, because the final portion of Pemex funding was not forthcoming it is understood that last month there was still a missing link and the facility was not operational. In the event Pemex spent rather more than 50 per cent of the originally agreed allocation of 3.69bn pesos ($1.45bn) in the first half of this year.

It has not been allowed to retain any of the difference between actual receipts from oil exports and the $10 per barrel very conservatively estimated in the 1989 budget. The only concession made to it has been to retain earnings from petrochemical exports.

Asked about Pemex's investment problems President Salinas has said that with the re-classification of basic petro-chemicals and the reduction in the number reserved for the state corporation, it would have more resources for drilling, as well as making good the country's deficit in basic petrochemicals.

Last year debt servicing accounted for 10 per cent of Pemex's income. Last month, however, for the first time it made a move to raise funds on the domestic market when it obtained approval from the Comision Nacional de Valores for issue of 600bn pesos ($237m) worth of promissory notes.

For the future, however, the most positive development this year and what should be a positive gain financial terms is the future was the arrest of Mr Joaquin "La Quina" Hernandez Galicia, the boss of the Oil Workers Union of the Mexican Republic (STPRM), in January.

The stranglehold imposed by him on Pemex, through the STPRM's power to bring the industry to a halt if its demands were not met, added considerably to costs. Under his leadership the STPRM established the right to undertake sub-contract work at grossly inflated prices.

It usurped the role of management by assuming the power to select personnel, even temporary workers, illegally selling non-union jobs in the process.

Together with other malpractices like pay-roll padding and direct union rake-offs union abuses are reckoned to have been largely responsible for an exceedingly high per barrel cost of production said to have reached $7. It should have been little more than $4. Adding to costs, as well as, bureaucracy has been the provision of medical services and housing.

Some 40,000 temporary workers were quickly laid off before at the end of July Pemex negotiated a new labour contract

The replacement of "La Quina" by Mr Sebastian Guzman Cabrera brought a rapid change in the sub-contracting system. Some 40,000 temporary workers were quickly laid off. Finally, at the end of July, Pemex negotiated a new labour contract.

It should enable the corporation to introduce greater job mobility and do away with restrictive practices like manual accounting. The terms of the new contract remain secret and delicate talks on its implementation are still continuing.

To give it greater flexibility in marketing Pemex has established a new affiliate, PMI Comercio Internacional in which Nafinsa, the state development bank, has a 10 per cent stake and Banco Nacional de Comercio exterior 5 per cent. It has trading offices in Tokyo, Houston, London, and Madrid.

Pemex has succeeded in maintaining export volumes to the US (52.4 per cent of exports in 1988) in the face of Saudi penetration of the market and purchase of a share in Texaco's refining and distribution assets but it could have difficulty in finding alternative buyers if the US terminates its contract to purchase 65,000b/d for its strategic petroleum reserve. In Spain, by far its largest European market (15.7 per cent of shipments last year) it has a 34 per cent stake in Petronor.

Despite the low petrol price Mexico has had some success in conservation not the least through Pemex's reduction of its own consumption and the amount of gas flared. In 1988 77.7 per cent of electricity was generated by oil only a slight decline from the 79.5 per cent in 1983, but electricity consumption went up nearly two-fifths in this period.

PETROCHEMICALS

A strategy for the future

"THE state will not renounce its right to basic petrochemical development," declared Mr Fracisco Rojas, director-general of Petroleos Mexicanos (Pemex), at the celebrations on March 18 marking the 51st anniversary of the nationalisation of the oil industry.

"There will not be one step backwards", he said but Pemex, a sacred white cow of sovereignty and nationalism, was forced to make a major retreat five months later when on August 14 the Ministry of Energy, Mines and Parastatals (Semip) removed 15 products from the list of 34 basic petrochemicals reserved for the oil and gas producing monopoly.

Within days Semip was receiving detailed proposals from the Mexican companies. Mr Alfredo Elias Ayub, the under-secretary responsible for the sector said one company, the Grupo Idesa, now plans to invest $400m.

Alfa, Condumex, Celanese (40 per cent Hoechst), Cydsa and Desc – the other Mexican companies with big petrochemical interests – are likely to be at least as keen as Grupo Idesa. Participation of foreign companies, including most multinationals, as minority partners, in joint ventures seems assured.

Re-classification opens a vast new area to foreign investment. The list of "secondary" petrochemicals once numbering over 1,000 has been reduced to 66. In this category foreign participation of upto 40 per cent is allowed and even majority control for a 20-year period under the *fideocomisio*, or trust, system introduced with the Ministry of Commerce and Industry's revision of regulations in May.

PETROCHEMICALS

	1983	1986	1988
IMPORTS			
Basic	632	663	660
Secondary	219	514	530
Total	851	1,177	1,190
EXPORTS			
Basic	140	73	85
Secondary	240	900	1,276
Total	380	973	1,361
BALANCE	(492)	(204)	171

Source: Min of Commerce and Industry

For all the other declassified products, foreign investments up to $100m are now automatically approved unless queried within a period of 45 days.

What was a politically difficult decision, not least because of the administration's sensitive relations with the petroleum workers' union, was made not a moment too soon. Last year Mexico ranked a lowly 15th among world producers when it accounted for a mere 3 per cent of global output. Worse, it had a substantial deficit in its petrochemicals trade balance.

Quite apart from the need to gain self-sufficiency at the primary stage of physical and chemical transformation of oil and gas, the National Chemical Industry Association (ANIQ) believes that Mexico has less than two years to establish itself as a significant exporter given the rapid build-up of capacity elsewhere.

Semip's calculations showed that an investment of $5.9bn would be required from 1989 to 1995 if it were to gain total self-sufficiency and avoid the need to import $9.7bn worth of petrochemicals.

Last year Mexico was in deficit to the tune of $550m, a sum wholly attributable to the inability of Pemex – starved of capital by the revenue requirements of the state – to satisfy the domestic demand for basic products as they were the defined. It has 21 basic petrochemical complexes but has spread its efforts too wide. It had only a limited success in providing for the domestic market with a few products such as ammonia. Last year imports of what were classed as "basic" petrochemicals were $663m while exports were valued at only $73m. In contrast, "secondary" petrochemicals earned the country $900m and cost it only $514m.

Excluded previously from making products which have been de-classified to which it justifiably felt entitled a vigorous domestic private sector scientific classification, a vigorous domestic private sector, which includes multinationals with a stake in Mexico was entirely responsible for a fourfold increase in the value of shipments abroad in the 1983-8 period. With a rise of over 40 per cent in exports of what were formerly classified as "secondary" chemicals in prospect a surplus of $171m is projected for this year. If the economy continues growing in line with the Government's macro-economic targets that would have been a brief turn-around.

Foreign investments up to $100m are now automatically approved unless queried within a period of 45 days

The revised list was acknowledged privately by Pemex officials to be arbitrary.

The new reclassification is said by petrochemical industry executives here to be "technologically sound" in terms of primary transformation. Added to the list reserved for Pemex was methyl tertiary butane ether (MTBE), a product not yet made in Mexico which is used to boost the combustible power of unleaded petrol.

Removed from it were acetaldehyde, acetonitride, acrylic nitrate, cumene, cyclohexane, dichloroethane, ethyl benzene, ethylene oxide, isopropanol, olefins, high density polyethylene, low density polyethylene, styrene and vinyl chloride.

Pemex strategy is to concentrate limited capital resources in expanding capacity of the remaining 20 petrochemicals. In relation to them, however, it has been actively exploring means of circumventing the somewhat confused legal restrictions whereby it can co-opt private capital.

It is working on a system whereby private companies would build plants on its behalf, Pemex would lease them as operator and repay contractors with products before assuming full ownership after a specified period.

Likely candidates are companies such as Celanese and Alfa rather than foreign concerns. Investment in the sector, which contributed 2.5 per cent of GDP in 1988, was about as a whole at the end of 1988 was about USD 16bn divided equally between Pemex and the private sector. Over the next six years the balance will tilt very much in favour of the latter with only $1.5bn of the $5.9bn investment expected to come from the state oil corporation.

Richard Johns

COFFEE

Squabble brews over quotas

RESEARCHERS at the Mexican Coffee Institute have created short, bushy coffee plants that are easier to harvest, more disease resistant and also boost the yields of Mexico's top agricultural export.

Garnica, a 20-year-old Mexican hybrid distributed to growers since 1978, can produce yields four times the national average of 15 quintales per hectacre, up from about 7 quintales a decade ago according to Mr Andres Rivera, reseafcher at Inmecafe, the coffee coffee producers confederation.

But that is not the reason Mexican coffee exports are breaking records. Exports rose from 2.6m 60-kilo bags in 1987/88 to 4.1m bags during the year ended September 30 because the International Coffee Organization abandoned its quota system that restricted Mexican exports on July 3.

The ICO – with membership of 24 coffee consuming countries and 50 coffee producing countries – had set quotas since 1962 in an effort to maintain price equilibrium. Sanctions could be issued against members who sold large quantities of coffee to non-members, particularly if they accepted prices below ICO levels.

Mexico, the world's fourth largest coffee producer, had led the charge against historic quotas, saying the demand for its mild Arabic coffee was growing along with production. While Brazil, the world's largest coffee producer, was allowed to export about 90 per cent of its production and Colombia 80 per cent. Inmecafe officials said quotas kept Mexican foreign sales to 40 per cent of production.

Coffee is Mexico's third source of foreign exchange after oil and tourism. In 1988, the $480m in coffee earnings accounted for nearly a third of the country's $1.6bn agriculture exports. But Bank of Mexico figures show that nearly $5.9bn in oil income and $2.5bn from tourism dwarf the importance of agricultural exports.

At the July ICO meeting, negotiators for Mexico and 10 other countries producing the "other milds" refused to renew the quota agreement unless they could get a bigger market share. Larger producers, particularly Brazil, fought the increase.

Negotiators knew that abandoning the system meant coffee prices would drop. However, Mexican coffee officials maintain that a free market in which they could sell all their coffee even at lower prices is better than a restricted market that left them with increasing stocks of the commodity each year.

Last year, Mexico would have been allowed to export just 2.2m bags to ICO members plus a small amount to non-members (mainly socialist countries). Following the collapse of the quota system, Mexico exported 3.8m bags, bringing total exports for the year to 4.1m. Mexico ended the year without any coffee stocks on hand and $630m in export earnings from the coffee business. Prices hit record lows.

Although international coffee prices fell below cost levels for some small producers, Mr Fabio Tulio Zilli, Inmecafe marketing director said Mexico would continue to export in spite of possible losses in order to clear existing stocks and help establish new export quota levels should the ICO re-established them.

On the eve of the ICO's September 25 meeting, an Inmecafe adviser said: "Mexico will not accept a quota system again, unless there is a redistribution of the quota for other milds." He said Mexico would push for a quota of 3.5 to 4m bags.

In the 1989/90 coffee cycle Mexico expects to produce between 5.6m and 5m bags of coffee, up from 5.5 the previous year. Again, it must export nearly all of it since domestic consumption is relatively low – 1.4 kilos per capita annually compared to six kilos in the US and eight kilos in Brazil.

COFFEE-GROWING

1988/9 production in 60kg bags	
Chiapas	1,840,000
Veracruz	1,610,000
Puebla	728,333
Oaxaca	575,000
Guerrero	253,000
Hidalgo	230,000
San Luis Potosi	144,666
Nayarit	103,500
Tabasco	13,033
Jalisco	6,133
Colima	5,366
Queretaro	2,300

Source: Mexican Coffee Institute

While production has increased 10 per cent annually over the past three decades, total domestic consumption has held steady at 1.8m bags for at least four years, according to Mr Rodolfo Leyva, adviser to Mr Jesus Salazar Toledano, director at Inmecafe.

Whereas coffee consumers in most developed countries drink more when prices fall, Mexican consumption is not very sensitive to price decreases, experts say.

The Government plans to promote more coffee consumption beginning next year. In addition to an advertising campaign, the quality of coffee sold here will be improved, Inmecafe say. Mexico is the only country in the world where retail coffee is legally sold with as much as 30 per cent filler substances, typically sugar or chick peas.

Mexico is trying to diversify its client base beyond the US, its traditional next door customer. After the establishment of a free coffee market, Mexico made sales to Japan, western Europe, Romania, Czechoslovakia and Singapore, Mr Salazar noted.

He said Mexico probably would not try to increase income by exporting more processed coffee because international coffee companies blend Mexico's high-quality bean with other coffees rather than use it alone.

Mexico's relatively new decafinating plants produce less than half of their 400,000 bag capacity.

In the past, Mexico's coffee growers – most of the 200,000 have plots averaging 5 hectares – often sold fresh coffee beans to private industry or Inmecafe.

But, over the next three years, Inmecafe plans to work its way out of the roasting and export businesses, giving grower organisations credit to take over its facilities. Inmecafe, will concentrate efforts on organising and training producers, regulating the industry and research.

The experiments began in January and changes are visible, according to Mr Rivera. However, he said, the jury is still out on whether those changes will increase yields or give plants better protection against disease.

Lindajoy Fenley

Deregulation of banking has begun, as **Richard Johns** discovered

A hint of freedom in the air

MEXICO'S banking system is operating in an regulatory environment different from and infinitely more competitive than the one constricting its freedom of manoeuvre.

It is as if the strings of a strait-jacket had been considerably loosened, Mr Jaime Corredor Esnaola, recently elected head of Mexican Bankers' Association (ABM), and director-general of Banco Internacional, acknowledges. But he emphasises that the garment has by not been removed.

Greater freedom given to the banking system has been very much part-and-parcel of the administration's general policy of deregulation. But it came as a relief to a sector stifled by restrictions going far beyond prudent supervision.

With little or none of the fanfare of the kind accompanying revision of the foreign investment regulations the big change, occurred in the spring when the Banco de Mexico telefaxed its circular No:9/89 to the banks.

In one fell-swoop interest rates were decontrolled. Prior to the *enjace* or regulatory regime banks were free to lend to clients only 10 per cent of their funds, after observing a basic 10 per cent reserve requirement. Obligatory directed lending provisions at below market rates absorbed the rest.

Until autumn 1988, the banking system had great difficulty in attracting deposits in the face of competition from *cetes*, or 28-day Treasury bills. The bills carried a real rate of interest that averaged 33.4 per cent over the year as a whole compared with 26.7 per cent for the average cost of bank deposits, as the public sector domestic borrowing requirement grew.

In addition the system faced stiff-competition from the informal credit market, mainly loans by-passing the the banking system and inter-company lending created by the widening margin between deposit and lending rates. What was becoming an acute liquidity squeeze was eased by various measures.

The most important among them was the authorisation last October to issue, without limit and exempted from obligatory reserve requirements, bankers' acceptances (short-term letters of credit issued at a discount with a maturity of up to 91 days) on condition that 30 per cent of the amount had to be backed by holdings of government *bonds and/or cash deposits* with the central bank.

As a result, this instrument's share of total liabilities leapt from 1.8 per cent at the end of September to to 48.7 per cent at the end of 1988.

Thanks to this the share of domestic savings defined in terms of M4, in competition with other financial intermediaries fell only to 53.6 per cent compared with 66.4 per cent a year earlier.

During 1988 total liabilities, including those of the development banks, increased by

Banking freedom has been part of the administration's policy of deregulation

31,300bn pesos to reach 183,069bn pesos ($13.7bn at the end-year exchange rate), a fall of 20.4 per cent in real terms.

Outstanding credit at the end of the year was 36,800bn pesos, up only 29 per cent in nominal terms compared with an annual inflation rate of 51.7 per cent.

As a result of the liberalisation measures in the spring, the banking system in the first six months of 1989 was able to increase its lending by 27 per cent and its share of domestic savings by 11 per cent. The sector's capacity to meet increased demand for credit in competition with other financial intermediaries and the growth of the economy has also been assisted directly and indirectly by net inflow of private capital of $2.3bn during the January-June period, according to the Banco de Mexico.

Deregulation, with the narrowing of assured margins, obviously raised the question whether there would be any kind of fall-out or mergers.

A minority of the bigger banks command the bulk of deposits and several of the smaller institutions are known to have been weaker in a system made up of 18 majority state-owned banks nationalised in 1982, the Banco Obrero owned by trade union movement and Citibank and eight *development banks*.

At the end of the year the big two, Banamex (25.4 per cent) and Bancomer (23.1 per cent), had 48.5 per cent of total *deposits* obtained by the 18 state-controlled banks. The share of the top five including also Serfin (12.9 per cent), Comermex (6.9 per cent) and Somex (5.1 per cent) was 73.4 per cent.

They accounted for a slightly bigger proportion of credit advanced by the group. Of the top five Serfin has gained ground and at the end of September had the highest valuation on the stock market.

Size, however, is not necessarily an indicator of health or profitability. The fifth-ranking Somex, has been amongst the least buoyant in terms of deposits and advances, of the 18 together with Multibanco Mercantil de Mexico, BCH, Bancrecer, and Banpais.

By contrast the five strictly regional banks are flourishing — not only the middle-ranking Monterrey-based Banco Mercantil del Norte but also smaller ones such as Banco del Centro (San Luis Potosi) and Banco de Oriente (Pueblo). According to senior banking authorities no mergers are contemplated, If they are, contingency plans are being kept very secret. Discreet support is assured for any bank from *fonapri*, a fund to which all the banks contribute on a monthly basis.

It is understood that the $500m of the $1.5bn World Bank loan facility agreed this sum-

During 1988 total liabilities increased by 31,300bn pesos to reach 183,069bn pesos

mer designated for the financial sector and to be channeled through the Banco Nacional de Comercio Exterior for the modernisation of the system is, in reality, aimed at strengthening it.

In spite of being clearly in line with the Government's economic philosophy and revenue needs, any move to raise maximum possible private participation in the banks from 34 per cent to the maximum 49 per cent is also ruled out for the time being.

Securities issued by Mexican nationalised banks, known as *CAPS, for up to 34 per cent of* their capital were authorised by the last administration. The full amount was subscribed only for those on offer from Banamex and Bancomer. None were issued by the five weaker banks. Meanwhile, the role of the development banks has been strictly defined as being *secundo piso* (second floor) so that they will in future only provide finance through the commercial banks. The link between Nafinsa, the state development bank and the Banco Internacional has been broken. At the end of 1988 total outstanding credit granted by Nafinsa had risen to over 40,000bn pesos, but over the 1983-8 period its total lending in real terms fell by 44 per cent.

Last month it had no difficulty in placing on the market 800,000bn pesos of 10-year industrial development bonds.

At the AMB's annual meeting in August, Mr Pedro Aspe, the Finance Minister, promised to issue a new regulatory framework for the sector. An announcement is scheduled for mid-November and the commercial banks hope that it will free them from of the irksome aspects of supervision of the Treasury and gives them more autonomy.

The big question is what the economic *apertura* will mean in terms of opening up Mexico's financial services to foreign institutions, not only in line with general policy but also its commitments under the General Agreement on Tariffs and trade under the Uruguay round of GATT negotiations. Mexican banks — six of which have a presence in New York with assets totalling nearly $3bn — face competition for national funds from foreign representative office but its system internationally is classed as one of the most restrictive in the world.

Mexico will find itself in a difficult predicament if full liberalisation of financial services is embodied in the Uruguay round. Permitting foreign banks entry to the Mexican market would need a change in the constitution — which could prove politically impossible or at least very difficult to bring about. "It depends on the evolution of discussions within GATT," says Mr Jaime Serra Puce, Minister of Commerce and Industry.

THE STOCK MARKET

Leader of the global league

NEARING completion and scheduled for inauguration in November the gleaming new building of the Bolsa Mexicana de Valores on the Paseo de la Reforma seems an appropriate symbol of the recovery of what has been the strongest performing stock market in the world this year.

Boosted by the progress of the Government's negotiations with the commercial banks on a reduction and rescheduling of $53bn of public debt, early in July the BMV index passed the previous historic high of 373,000 points reached on October 6, 1987 in anticipation of the outline accord.

That was prior to *"el crack bursatil" — the name given to* the ensuing precipitous plunge to 95,000 points over a six-week period. Given an extra stimulus by foreign investors' demand for the handful of eight Mexican shares hitherto available to them, the index passed the 400,000 barrier on August 28, to reach 427,669 by the end of September. This compared to 211,532 at the end of 1988.

With a 47.9 per cent gain in dollar terms in the first half of 1989 — the index reached 348,488 points at mid-year — the Mexican stock market was top of the world league, according to Morgan Stanley's *Capital International Perspective*.

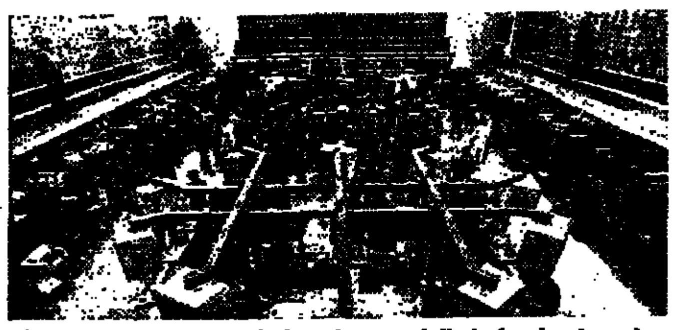
At the same time, in passing the previous peak the average price of the 42 shares making up the BMV index had only attained in dollar terms about 50 per cent of their market valuation prior to the crash.

With business confidence high, the market about to be fully opened to foreign investors under regulations being finalised and the value of stocks still below par in relation to net book value, a further steady expansion is in prospect.

In February the index only faltered marginally after the arrest of Mr Eduardo Legorreta, chairman of Operadora de Bolsa, together with three other executives, charged with abuses and the announcement that 148 other brokerage employees were to be investigated by the Comision Nacional de Valores (CNV), the regulatory agency supervising the Bolsa.

Mr Legorreta has yet to be brought to trial and the opinion of many observers is that he may have been a political victim — a financial tycoon quid pro quo for the arrest of Mr Joaquin Hernandez Galicia, the petroleum workers' leader.

It may be that the alleged



The bourse awaits regulations to open fully to foreign investors

abuses and irregularities were, for the most part, nothing more than mismanagement of poor or non-existent documentation, during the chaotic hurly-burly of buying before and selling after the crash.

By the end of August the CNV had paid out in compensation 20bn pesos ($7.6m) to 58 clients who proved that they had been defrauded by traders of various companies.

Operadora was the brokerage house most heavily involved in the bonanza, during which the number of investors in the stock market doubled to some 400,000. In general, it was the gambling minnows who lost their savings as the big fish extricated themselves from the downward spiraling whirlpool.

As the brokerage which set out most aggressively to expand retail operations and secure new clients, it was the most obvious target for punishment, though two of the

With a 47.9 per cent gain in the first half of 1989 the stock market was top of the world league

arrested executives were from other companies.

Operadora also paid the penalty with loss of market share and leading market position to Inverlat (ironically headed by Eduardo's brother Mr Augustin Legorreta, until recently chairman of the Business Co-ordinating Council). In a fall-out the number of dealing institutions were reduced from 33 to 25 and employees in the brokerage business from about 13,000 to 10,000.

*Mr Alfed Harp Helu, presi*dent of the BMV, says that the basis for the recovery was the continued policy of *concertación*, or collaboration by government, business and labour in freezing prices and restraining wage rises, in particular the Pact for Economic Stability and Growth.

Second, he points to the dramatic improvement in financial health of companies quoted on the BMV from mid-1987 to the end of 1988 and change from indebtedness to one of high liquidity. (The private sector reduced its external debt from $23bn in 1983 to $7bn by the end of 1988).

Third, there was the steady movement from March onwards towards the debt agreement with the index responding stage by stage starting with the signing of the letter of intent with the International Monetary Fund and actually anticipating the final outcome.

Under the very dynamic and positive presidency of Mr Oscar Espinoza Villarreal, the CNV has been liaising closely with the brokerage business over measures to make the market more liquid — and, therefore, less volatile — as well as to deepening it by making stocks more marketable and increasing the number of listings.

Last month the go-ahead was given for short-selling operations. Lack of them - together with the existence of a form of futures margin trading tended to exaggerate the swings in 1987.

A system of specialist market-makers is being introduced together with a rating system for stock liquidity based on a system used by the London Stock Exchange and also shelf registration to help the companies judge the right point in time for listing.

No increase in the number of quoted companies or new share issues are expected until prices reach a 100 per cent of net book value (a concept which in Mexico does not include goodwill) — a point which almost certainly will soon be reached.

Privatisation is bound to *expand the market*, Mr Abelardo Morales Puron, chief executive of the rapidly reviving Operadora, says.

In spite of the recovery of the market, the current ratio is still only about 0.85:1 and the price earnings ratio, considered a far less reliable indicator of value, though progressively less so, because of inflation accounting, is about 0.50:1.

The number of listed shares is just over 300, including about 100 mutual funds. Of the rest Mr Timothy Heyman, senior vice-president for investment strategy at Estrategia Bursatil and a leading authority on *Mexico's financial markets*, reckons that only 50-75 are marketable in terms of availability and being able to purchase reasonable amounts on the same day.

In what remains a thin market, ownership of many quoted companies is dominated by families or small groups of individuals.

The BMV last year only accounted for about 2 per cent of total financial market operations in 1988 - compared with about 7 per cent in the boom-and-bust year of 1987.

Now the market is awaiting with eager anticipation details of the trust system whereby foreign investors will be able to purchase any Mexican stocks but will be precluded from gaining control or the management any company.

Strong interest in Telmex, the state majority-owned telecommunications monopoly soon to be privatised, on the New York Stock Exchange (where its shares and those of Tamsa alone are traded apart from those of the Mexico Fund) point to a big infusion of funds into what must be the most under-valued of emerging capital markets.

Richard Johns

The new debt swaps programme will re-vitalise foreign investment, reports **Andy Marshall**

Deregulation may mark the end of a seven-year hitch

WERE there a confidence account on the balance of payments, Mexico would be a rich country.

Since the accession of Carlos Salinas de Gortari last year, and his government's announcement about the liberalisation of foreign investment regulations, the level of confidence expressed in his government's policies has been high. But translating that into investment – and the right kind of investment – will be another problem.

The primary benefit of the regulations is they begin to clear-up a bewildering network of rules that have built up since the 1973 law. Foreign investors complained of the arbitrary power placed in the hands of the Comision Nacional de Inversiones Extranjeras. Some of this uncertainty is now removed.

Reaction from the foreign business community to the new regulations has been gen-

Business community reaction to the new regulations has been very favourable

erally very favourable. The Japanese alone, though pleased with what has been achieved, seem unconvinced that the new regulations represent a decisive change of direction. Mr Takashi Matsumoto of the Japanese Chamber of Commerce expresses some scepticism, pointing out that this is not a new law; it is new regulation filling in an old law. "The Japanesse are still waiting," he says.

This is undoubtedly a disappointment to the Mexican government, which had high-hopes of increasing the amount of Japanese investment and thus reducing the US share. At the moment, Japanese foreign direct investment(FDI) amounts to some $1.2-1.7bn or 5-6 per cent of the total. Approximately half is concentrated in the investments of one company, Nissan, which manufactures its Tsuru for sale mainly to the Mexican market.

Mr Anthony Davie, of the British Chamber of Commerce is very bullish about British investment. The stock of British investment increased to $1.75bn from $990m in 1987, which increased the British share of the stock of FDI from 4.7 per cent to 7.3 per cent, giving it second place over Japan.

Glaxo made a large investment of $250m; but by far the largest portion of the $1.75bn was in 11 tourist developments, with little indication as to the investor's identities. Sir James Goldsmith, the British investor and industrialist, has been rumoured to be behind some of these investments. He bought himself a 6 per cent stake last year in Mexicana, the partly-privatised airline, and keeps a large house in the country.

Mr Davie is confident the British interest can be sustained: he expects to see investment double again in the next 18 months.

Mr Hans Barschkis of the German Chamber of Commerce is also pleased with the new regulations. "Everybody is quite convinced that this is a new basis for relations," he says. Unlike the Japanese, the Germans accept that political constraints prevented Mr Serra Puche from going much further. "We were aware that it had to be squared with the constitution; and we're quite happy with the way the limits were used, says Christian Roehr, Director General of the Chamber. The Germans also point out inadequacies in the statistics.

Jaime Serra Puche implicitly acknowledges that more may need to be done on the law, calling the new regulations "a very important step in the process toward liberalisation".

But the key question for the government is how far favourable impressions lead to inflows of cash. At the end of 1988, accumulated FDI was approximately $24bn. Mr Serra Puche points out that Mexico has benefitted very little from the outpouring of foreign investment this decade. Only 11 per cent of Mexico's total investment in 1980-85 came from foreign capital compared to 37 per cent for Brazil; FDI represented 4.5 per cent of GDP over the same period, compared with 15.5 per cent for Brazil.

Carlos Camacho Gaos Director General of Foreign Investment in the Secretariat of Commerce and Promotion of Industry believes the rate of inflow of foreign capital can be rapidly speeded up. "We have achieved, with or without debt swaps, $2.2-$2.5bn per year. With the new regulations, we can at least double that as an average." Already this year, $1.75bn has been approved, starting from May when the new regulations were announced.

Resumption of the country's debt swap programme is one way of virtually guaranteeing new inflows of capital, albeit in a discounted form. The programme was suspended because of its inflationary impact on the economy, and will be resumed next year in a carefully controlled form. In 1987, of the $3.8bn of FDI approved, $1.2bn of it was done with swaps; in 1988 (the year the programme was suspended) of $3.1bn, $0.9bn was with swaps.

There are two main priorities for the swaps: directing investment towards the privatisation of state-owned industries, and infrastructure projects. $3.5bn will be set aside for these purposes over 4 years.

Privatisation is a prime candidate for FDI flows, with or without swaps. For instance, the privatisation of Telmex, Mexico's telecommunications services operator, was announced last month, and foreign companies will be permitted to take a 49 per cent stake. "Many of the big companies are aware of the opportunity from the privatisation of Telmex, even with a minority interest," says Mr Camacho. British Telecom and Southern Bell, a regional telephone company from the US, are thought to be among those interested.

Infrastructure, is an area where the Mexican government is keen to see an expansion of foreign involvement, through the provision of expertise, construction and engineering, but also through companies building and then operating roads, water and sewage systems and power transmission. Mr Camacho mentions that the government is considering contracts on the basis of build-operate-transfer, and of reimbursing companies through toll revenues.

But both infrastructure and privatisation projects require a great deal of consideration to be given to the regulatory and tariff structures, in particular to define the profitability of these sectors to foreign investors. "We are very aware that if we want the private sector to get involved, we will have to look very carefully at returns," says Mr Camacho.

Officials accept that easing the conditions on foreign investment is only one stage in creating a more dynamic, less hidebound economy. "If we want to have an open economy, then we have to open investment and trade and we have to deregulate the internal economy," says Mr Camacho.

This will not go easy with some of the country's industrial sectors, including foreign-owned multinationals for whom investment decisions have been predicated on closed or semi-closed borders. "If investors were attracted to a closed economy, then that is one type of decision; now, they

the key question is how far favourable impressions lead to inflows of cash

must make a different type of decision," says Mr Camacho.

Stabilising the Mexican economy, encouraging further domestic growth, and liberalising the private sector can do as much, or more, to promote investment as changes directly in foreign investment legislation. It's notable, for example, that tourism has been in vogue recently, in spite of restrictions on land ownership in the coastal strip, because of the boom in visitors.

The second factor is that Mexico must ensure more secure export access to the US. The Mexican market alone is relatively small, and poor. This was a key focus of Mr Salinas' visit to Washington earlier this month.

The third factor which Mr Salinas and Mr Serra Puche have to crack is the continued poor perception of Mexico abroad. "The marketing of the new Mexico is now the big step," says Mr Roehr at the German Chamber of Commerce. "There have been "seven years of bad news," he says: changing that view will not happen overnight.

Andrew Marshall charts the mini revival of the legendary Volkswagen Beetle

Motor industry comes of age

IN THE entrance hall of Volkswagen de Mexico's offices stands the world's 2 millionth Beetle, produced here at their Puebla plant. Next to it stands, another, earlier, version: a 1954 model, one of the first to be produced in Mexico. The smooth, clean curves of the German-designed automotive icon are unmistakeable – though in between, the Sedan, as it is called locally, underwent various changes of engineering and styling.

But for Volkswagen de Mexico, the people's car is not a museum piece: it is a key part of the company's future strategy. VW has just announced a 20 per cent cut in the Sedan's price to 13,750m pesos, in response to the government's call for a cheap popular car.

The cut-price Sedan will become the latest force driving the newly-dynamic Mexican domestic automotive market, which grew 37.9 per cent last year – the brightest industrial sector. All the big manufacturers have seen strong increases in sales for the last two years, after a period of prolonged depression.

This year looks like repeating the pattern: Mr Nicholas V Scheele, Chairman of Ford de Mexico, says the company is up 46 per cent for the first six months, compared to the same period last year. Figures for the whole industry from AMIA, the Asociasa Mexicana de la Industria Automotriz, show production for the industry as a whole up 39 per cent in the first six months. According to AMIA, monthly sales in June reached levels not seen since June 1982, when the domestic market's long slide began.

Price controls, which have frozen the price, have meant that "cars are quite good value compared to other things," says Mr Erick A Reikert, chairman of Chrysler de Mexico.

But the effect of the pact on profit margins has been "very severe," he says. The industry has not been able to recover cost increases, including higher labour costs. There has also been a rise in the cost of imported materials and components, he says.

The Sedan has long been one of the best selling cars in Mexico – the only country where it is still sold – helping to keep first place for Volkswagen in the market share league for most of the decade. But in the last two years, as the domestic market has started to recover, VW lost first place. The discounted Sedan should help VW recover its position, though not without a fight.

VW's Mexican competitors are somewhat disdainful of the Sedan, and claim that it will not compete with their more upmarket products. Mr Reikert says that production of "popular" cars is based on "obsolete and tool-bag technology", a contention VW hotly denies. Mr Martin Josephi of VW points out the numerous changes of parts and engineering the basic model has undergone, and says the Sedan is admirably suited to Mexican conditions.

A modern Ford assembly plant: but workers are wary of change

Mr Shoichi Amemiya of Nissan, which competes more directly with VW, is rather sniffy about the Sedan, calling it old and outdated. "Selling for price is not a good attraction. We are not selling on price; we believe in quality." The Tsuru is still Mexico's biggest selling model by far.

Making the price cut to achieve the government's target price has been partially achieved through government tax incentives. But Mr Josephi says that only about a third of the cut was accounted for by reductions in sales tax, import

Price controls have frozen the price of cars which are quite good value compared to other things says Chrysler's chairman

tax and car tax. The rest, he says, has been achieved through reductions of margins by suppliers and dealers, which he hopes will be recouped through volume increases.

Mr Josephi says that the government will recover its revenues with only a 70 per cent increase in sales; whereas VW expects sales to triple or quadruple.

But even if the Sedan is not a competitor, all five of Mexicos domestic producers will soon face a new threat. At present, imports of new cars are virtually prohibited by high tariff barriers. That will change when the government releases details of its liberalisation of the sector, expected any day.

MEXICAN CAR SALES

	DOMESTIC					EXPORT	
	Sales 1987	Share (%)	Sales 1988	Share (%)	Change (%)	Sales 1988	Market Share
Chrysler	39,999	16.1	80,062	23.4	100.2	50,392	29.1
Ford	33,972	13.7	61,718	18.1	81.7	66,361	38.3
GM	40,904	16.5	47,725	13.9	16.7	36,506	21.1
Nissan	70,227	28.3	84,598	24.7	20.5	18,871	10.9
VW	56,611	22.8	60,705	17.8	7.2	-	-
Total*	247,944	100.0	341,919	100.0	37.2	173,147	100.0

* Includes other manufacturers

Source: AMIA

Reducing import barriers will be a stiff test of the competitive ability and agility of the Mexican motor industry. Mr Ruben Barrios Graff, president of the National Association of Manufacturing Industries, said last month: "It's time for the Mexican consumer to decide which is best: Mexican or foreign cars." He was confident of the outcome: "Mexico's automobile has come of age. It reached internationally competitive levels 15 years ago."

The manufacturers' concerns about liberalisation hinges largely on the speed at which it is done. If the Government were to open the door tomorrow it would place "many jobs in jeopardy," Mr Reikert says. And, he says, "why waste *divisas* (foreign exchange) on low-priced cars?"

The industry has been engaged in discussions with the government of ways to liberalise imports without damaging the industry, such as resticting imports temporarily to those companies which manufacture in Mexico, or limiting importers to using the distribution chains already existing – which are tied to manufacturers.

First the domestic market should be strengthened, Mr Josephi says, and export strategies developed; then the borders can opened. He estimates that opening should take 5 years. Other manufacturers say 3-4 years. But it is thought the government may want to start as early as next autumn.

But the groundwork for adapting to a more open market has already been done. Overseas sales have become increasingly important to all the manufacturers, and to the Mexican economy; exports of automobiles, engines and components account for perhaps 40 per cent of total manufactured exports.

Internal demand was the driving force behind the industry until 1982, when it all but evaporated overnight. Collapsing domestic sales helped to bring about a dramatic change

Reducing import barriers will be a stiff test of the competitive ability and agility of the Mexican motor industry

in the nature of Mexico's automobile industry. Faced with a collapse of 42 per cent in domestic vehicle sales from 1982 to 1983, most turned to exporting as a way of utilising spare capacity and of balancing their foreign exchange needs as required by the government. Vehicle export sales increased from 2.5 per cent of the total in 1982 to over 50 per cent last year.

The three American manufacturers are best established in the export of complete vehicles. Chrysler now counts itself the second largest Mexican exporter after Pemex, the state oil monopoly, Mr Reikert says. It sells to more than 20 countries, and in the first seven months of 1989 exported 55,418 units compared with 31,907 in the same period of 1988. Ford exports Tracers to both the US and Canada, and GM exports Celebrities to the US.

Nissan and VW have been slower to move into imports to the same scale, but the Japanese manufacturer has slowly increased exports, mainly to Latin America, in the past two years. VW has shifted production of Jettas and Golfs from Westmoreland in the US, beginning production for export in Puebla this year. VW's export program had been suspended since 1985, though it had previously exported Safaris to the US and Sedans to Europe.

But it is not just finished cars: Nissan, for example, exports engines to the US, and transaxles to US and Japan. Mexico's engine exports had started to boom even before the collapse in the internal market.

In the face of a rising domestic market and growing export sales, many of the manufacturers are investing in new shifts and new lines. "Most of us are operating at or very close to full capacity," says Mr Scheele. "We never imagined we would produce more than 100,000 units – but this year, its reached 125,000," says Mr Amemiya.

VW are currently involved in increasing the output of the Puebla plant from about 600 units per day to 1,000 a day, through adding staff and shifts, helping to reduce the supply bottlenecks which hampered production last year and preparing for the launch of the low-cost Sedan. Ford have spent $200m expanding their Hermosillo plant from a single-shift to a double shift, in preparation for a new model to replace the current Escort. And Nissan have spent $1bn this year.

The strength of the Mexican industry is its growing linkage into world markets through world-class producers. Earlier this year, an EIU report, *The Automotive Industry in the Developing Countries*, gave a bright picture for the industry.

"Mexico has succeeded in creating an image for itself as the indispensable adjunct for companies with production facilities in the USA," the report says. "For the coming decade this "most favoured nation" is likely to become still more accentuated and therefore distance the country even further from others in the developing world."

One key question for Mexico in the longer term is whether it can formalise this arrangement to gain preferential access to the US market – through some kind of arrangement parallel to the US-Canadian Auto Pact.

Lucy Conger assesses the pressure for change in the unions

Workers fear modernisation

THE FIRST eye-catching move of the Salinas presidency was the clean and bold strike against the oil workers union, crippling the workers empire that had grown to become a state-within-the-state.

In his sixth week in office, Carlos Salinas had done the unthinkable, jailing the untouchable and perpetual union leader, Joaquin Hernandez Galicia, rendering the all-powerful oil leader a paper-tiger.

By late in the year, however, labour problems at the Cananea copper mine, the world's 10th largest open pit operation, had become a difficult domestic issue, epitomising all the difficulties the government faces in dealing with the unions.

On August 21, the government declared Compania Minera de Cananea bankrupt and sent in 3,500 army troops to occupy the mine in what was interpreted as a renewed attempt to privatise the company.

Public opinion soon turned against the army intervention and peremptory firing of the 2,800 miners at the historic Cananea mine, the site of a 1906 massacre of striking workers, a bloody event revered in Mexican memory as a catalyst of the 1910 social revolution.

PRI President Luis Donaldo Colosio rushed to Cananea and promised the workers the most generous severance pay possible and investment that would create alternative sources of employment.

Opposition PRD leader Cuauhtemoc Cardenas got a warmer reception from the miners, and denounced the bankruptcy as "fraudulent".

President Salinas tacitly recognised the mismanagement of the Cananea affair. In a speech on Sept 12, he promised miners could buy shares in the re-opened Cananea and gave a nod to Mexican nationalism, pledging Cananea "will not return to foreign hands; it will be controlled by Mexicans".

One month after declaring the mine bankrupt, the future of Cananea remains unresolved. However, the Cananea situation underlines that the economic liberalisation policy of the Salinas administration and the interests of the 9-million member official labour movement are on collision course.

The opening to international trade and the privatisation drive threatens unionised workers who fear they will join the roster of some 8 million unemployed workers. Penetration of foreign imports and new industrial technologies evokes fears of labour displacement while quickening the desires of employers and government to introduce flexibility into labour contracts.

There are no safety nets such as unemployment compensation for workers left behind in Mexico's economic restructuring.

Porfirio Camarena, a regional labour official and economic analyst for the Mexican Workers Confederation (CTM), the largest official labour grouping, said recently of the Salinas liberalisation program, "We have to agree on the concept of modernity so as not to affect the interests of workers."

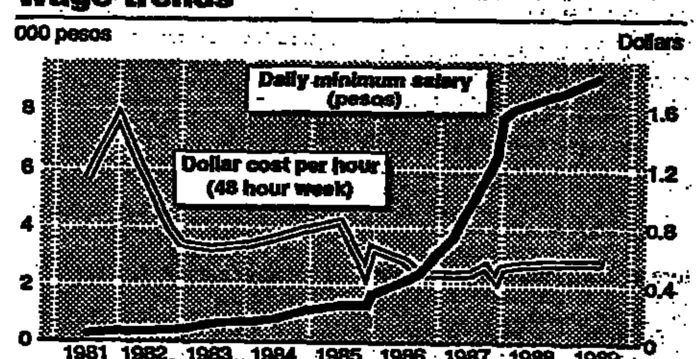
The PRI-affiliated labour movement has weakened steadily, paralleling the 50 per cent cut in purchasing power since 1982.

But the movement remains a valuable ally for the government. The collaboration between government and PRI labour bosses has made possible the anti-inflation pacts begun in Dec 1987.

The pacts "were not discussed, they were imposed, but they worked," says labour lawyer Nestor de Buen. With 64 of 263 deputy seats in the Chamber of Deputies, labour movement representatives comprise an important voting bloc that could break the PRI's narrow 13-vote margin and thwart government-backed reforms.

The state of quiescent effervescence among the unions has emerged in such actions as in April when some 300,000 striking school teachers in the official teachers' union marched through downtown Mexico City demanding a 100 per cent increase in wages.

Wage trends



Source: Twin Plant News

Miners at Cananea protest at army intervention after the mine was declared bankrupt. The Government is seeking a solution.

Their pay had fallen to $150 per month for long-time professionals. It was the biggest labour protest in 30 years, and the government was obliged to cede to the demands, granting a 25-per cent wage increase.

In July, some 1,300 workers went on strike affecting 15 assembly plants in Reynosa, just across the border from Texas, jeopardising relations with investors in the growing maquila industry.

It was settled after 24 days when workers and plant managers agreed to establish a new industrial union affiliated with the CTM.

A broader issue looms on the horizon as pressure is growing among businessmen to reform the Federal Labour Law. Labour reform could prove vital to the Salinas economic program which is striving to attract foreign investment in the wake of the insufficient debt reduction deal.

Mexican manufacturing industry workers are already among the lowest paid in the world earning $1.60 an hour. An additional competitive edge could be gained through labour code revisions that would reduce union control over firings, ease restrictions on reassigning staff and updating technology, and would decrease vacations and possibly set a piece-rate wage scale.

The administration's hesitation about labour reform stems from divisions within the government over the mess at Cananea and deteriorating relations with the PRI labour sector.

Placing labour reform before the new multi-party Congress poses risks to the "social pact" between government and labour and might lead to overturning the Labour Law's second "clause of exclusion" which compels employers to dismiss employees identified as dissidents by their union bosses.

It could call into question the Labour Ministry's authority to register unions, confirm union leaders and declare strikes non-existent. The government-convened commission to draft Federal Labour Law revisions includes government officials, union bosses and employers representatives.

"The labour law negotiation is taking place between three actors, none of whom are interested in workers rights," says PRD strategist and former Labour Minister Porfirio Munoz Ledo. Noting that the 1970 revisions to the labour law were 10 years in the making, Labour Minister Arsenio Farrell refused to guess how long reforming the law might take.

Reform "is not going to be the motive for working hurriedly or on bended knee," said Farrell, lending credence to political analysts who predict that the government will delay the issue until after the 1991 mid-term Congressional elections which, the administration hopes, will bring a wider majority for the PRI.

Lucy Conger

Andrew Marshall discovers that maquiladoras are integrating into the economy and slowly shedding their 'fly by night' image

Manufacturing success from the borderline

IT SEEMS a reasonably straight forward deal. Manufacturers who set up maquiladoras – manufacturing plants which allow easy importation of raw materials – get cheap and easy access to the US market, and low-wage labour. In return Mexico gets foreign exchange and jobs. What could be simpler?

But the economic, legal and political machinery that drives Mexico's profitable production-sharing scheme is likely to get a more critical look over the next few years, from politicians and businessmen on both sides of the border.

There are four key parts to the maquiladora formula. Firstly, the key to the maquilas' success is that they employ Mexican labour, at a fraction of the cost of US labour. According to Mr Dan Pegg, of the Border Trade Alliance – a group which promotes and supports the development of the border industry – the ratio is between 10 and 5 to 1 depending on the degree of skill needed.

Secondly, under two US customs provisions (known as 806.30 and 807, though their designations have actually changed) raw materials and parts imported from the US which are not substantially changed go back into the US duty free, with tax paid only on duty added – essentially labour and capital.

Thirdly, investment in a maquila is made substantially easier than investment elsewhere in Mexico by a scheme designed to provide employment, with all raw materials, parts and equipment coming in duty free, to be held under bond.

The formula has proved successful for Mexico, in terms of jobs and money

Fourthly, maquiladoras are mainly centred in the northern states of Mexico, and most on the US border. The vast majority of plants are in two states, Chihuahua and Baja California Del Norte, and some 40 per cent in two cities, Tijuana and Ciudad Juarez, a few miles across the border from San Diego and El Paso.

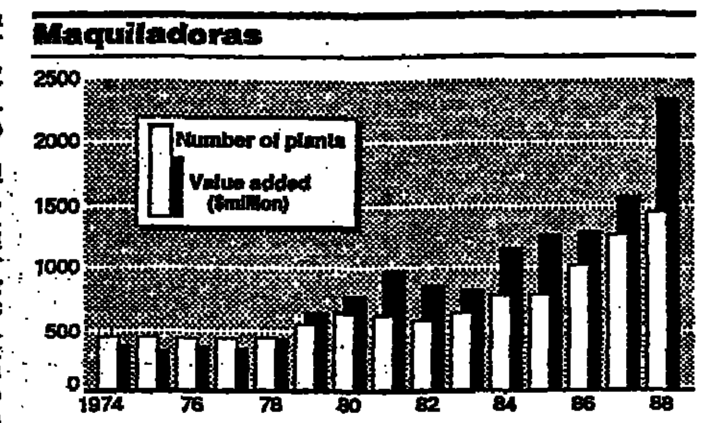
The main sectors involved are the automotive, electrical, electronic, furniture, chemicals and textiles industries, with the first three accounting for 70 per cent of plants. Of these, the fastest growing last year were the chemical (92%), furniture (65%), automotive (57%) and electronic (49%).

The formula has proved highly successful for Mexico, in terms of jobs and money. The maquiladoras provided $2.3bn in foreign exchange for the economy last year, making it easily the most dynamic item on the current account. This year, for the first six months, government figures show that value added is up 35.8% on the same period in 1988, to $1.4bn.

The number of jobs has increased from 122,000 in 1982 to 389,000 last year. As industry has stagnated, maquilas have become increasingly important to the economy, contributing over 4 per cent of GDP last year compared to 2 per cent in 1982, and making up 15 per cent of manufacturing employment compared to 5 per cent in 1982, according to a Mexican consultancy.

But the maquiladoras have not been well-integrated into the economy. They have a very low level of local content – an average of about 1.7 per cent for the industry as a whole.

Maquiladoras



Mexicans are employed as unskilled direct labour; and there has been little technology transfer. It is difficult for a maquila to sell into Mexico. Most sell only to the US market, and though a few sell internally, the regulatory process has been very difficult, and the Mexican market is relatively small and sluggish.

The new government of Carlos Salinas de Gortari will attempt to address these problems in a forthcoming review of maquiladora law. But it will be circumspect: the maquiladoras have flourished precisely because they were under-regulated in relation to the 1973 foreign investment law, and have thus been more responsive to market forces. "We want to get the benefits spread across the the industrial sectors, and the whole country, and we want to integrate more," said an official. *According to diplomats in* Mexico City, the new law may also provide the opportunity for greater sales into Mexico.

The maquiladoras are slowly adapting and changing. There has been an increased spread of plants to the interior of the country, largely enforced by the severe strains which the last 6 years have placed on infrastructure and the labour market.

There has also been a more profound shift. The conventional *wisdom about* maquiladoras is that it is a fly-by-night sector, exploiting cheap labour in under-automated plants. Certainly, many of the maquiladoras have in the past undertaken the minimum risk necessary to gain the maximum return through reduction in labour costs.

But this is no longer the case. "The maquiladoras are undertaking more of the risk," says Mr Billy Mitchell of Grupo Bermudez, a large operator and developer of industrial parks in Ciudad Juarez. The average plant size has nearly doubled since 1975, from 148 to nearly 300; Some of the new plants are 10 times that size.

None of the plants have yet gone as far as design engineering, but Mr Mitchell believes that will come. Many plants show an increasing tendency to automation, added value, and an emphasis on productivity, with more technology transfer and training.

The value of cheap labour is still there, of course: but Mr Bert Diamondstein, of El Paso, says he sees a greater emphasis on total operating cost, within which labour is the most easily varied component. The minimum labour content for a maquiladora in cost terms was about 25 per cent, now, it may be as low as 5 per cent.

Maintaining the effectiveness of maquila investment depends on four factors. Firstly, cheap labour has undoubtedly been the key attraction. The scheme really took off after the devaluation of 1982, which substantially reduced the cost of Mexican wages in US terms, despite inflation, and the value of the peso has evened out variations since. In the decade before before 1982, says Mr Mitchell, growth was about 11 per cent per annum, and others say that wages were then reaching a *level too high to accommodate.* After it growth has been 20-24 per cent.

The government has tried to lengthen the periods between the re-adjustment of the minimum wage, and this combined with currency management will be the main instrument for keeping costs down.

Wages are already at a considerable premium to the minimum wage – there are statutory fringe benefits, but most companies maintain extra benefits to stabilise labour turnover, which can run at about 15 per cent per month. Labour costs are currently about $1.50 per hour; statutory benefits add 60-70 per cent to that; but most operators add 150 per cent, says Mr Mitchell.

Industry stagnated, and maquilas became more important to the economy

Secondly, there are continual rumblings about cutting the US tariff concessions for production sharing. The Border Trade Alliance was set up partly to defend these, and studies by the US Department of Labour and the International Trade Commission show the benefits to the US to be considerable. But growing Asian, European and Mexican ownership, displacement from the border areas, and increased Mexican content will put further pressure on the Congress to reconsider. "For the US to benefit and continue to support the industry, proximity is very important," says Mr Pegg. "They want to see a direct return."

But the maquiladoras have not been well-integrated into the economy

Thirdly, there is the question of the Mexican programme itself. Assuming that foreign investment liberalisation is carried out as planned, the role of the maquilas may become less easily defined. "What a maquiladora is – in functional terms, not in legal terms – will become very grey," says *Mr Diamondstein.*

One facet of the scheme's attractiveness has been that it by-passed many of the restrictions imposed by the 1973 investment law, allowing easy importation of raw materials and capital equipment, and 100 per cent ownership. "To us, the lines are already getting very fuzzy," says John Bruton of the American Chamber of Commerce in Mexico.

"In the past, there was a much more liberal system in *the maquiladoras.* Now we have liberalised direct foreign investment in the country, and this will bring the two systems closer. The differential will be less as time goes by," says Mr Camacho.

But the main short-term obstacles to growth are internal. The explosive growth of the last two years has started to slow as the industry has hit serious infrastructure restrictions. Mr Mitchell estimates growth was about 19 per cent year-on-year to May. Roads, water, power, communications and housing are all in desperately short supply in the northern states, and this is one factor propelling new maquila development to the south.

The government is already encouraging foreign involvement in infrastructure development through investment. Most manufacturers would like to see an improvement, but few are keen just to see tax dollars sent to state and local governments, with no guarantee about where they will end up. The new state government in Baja California del Norte, where a large percentage of maquilas are located, is thought to be particularly keen to follow this avenue at a local level. Mr Mitchell refers to it as "matching self-interest with social responsibility."

Infrastructure and regulations have also become a problem in another, less expected area: the environment. The AFL-CIO, the US labour union, raised major concerns about the abuse of the environment and the lack of environmental regulations in a document published earlier this year. "Criticism regarding hazardous materials should really be directed not at the industry, but at the whole border," says Mr Pegg. "It's a problem along with roads and communications: the rapid growth has *outpaced the capacity of the area.*"

Taking the geographical spread of the maquilas, their greater capital investment, and their concern for infrastructure, it is clear that the logic of the market will force maquilas to a greater involvement in the Mexican economy and more attention from Mexico City.

Both environment and housing are examples of why government will get more involved in the sector. "It's going to take both government and the private sector. In housing, the private sector can't move without the government," says Mr Mitchell. SADUE, Mexico's environmental watchdog, and the EPA, its US counterpart, have already begun extensive co-operation.

From outside the sector, if investment liberalisation continues and the new maquila law is as planned, their expansion into domestic industry *may start to take on a new* logic. Mr Diamondstein, looking across the border from El Paso comments: "If you take Mexico's accession to the GATT, the so far successful policies of Salinas, and changes in the foreign investment regulations, the potential for greater maquiladora involvement in the domestic economy is enormous: the groundwork has been laid."

MINING SECTOR

Privatisation programme to release untapped potential

WHATEVER its financial problems, there can be little or no doubt that when the Government announced the bankruptcy in August of Cananea, the large state-owned copper mining company, it was trying to break the mining union's stranglehold over the company's profitability and make it a better selling proposition.

It was a drastic move at a time when large mines in Peru, Papua New Guinea and Canada were on strike and it forced companies to import.

Within the Mexican context it was a dramatic one given the emotive symbolism of Cananea, particularly for the left and the labour movement.

Violent suppression of a strike at the mine in 1906, then owned by Mr William C Green who called in the Arizona Rangers from across the border 25 miles away, is generally regarded as one of the triggers for the 1910 Revolution.

The sector continues to be a vital one for the balance of payments and last year earned the country $660m and a surplus in mineral trade of $500m.

It is debatable whether Cananea was technically bankrupt. The company had declared a healthy and much improved operating profit last year (thanks largely to high prices) and had not defaulted on repayments of its $650m short-term loan commitments.

Above all, the announcement emphasised the determination of the administration to press ahead with its privatisation programme, especially in the mining sector where one of its more important objectives is to realise untapped mining potential.

An agreement on the sale of Cananea to Grupo Protexa, the Monterrey-based construction group, for $910m in May 1988, fell through because of financing difficulties and subsequent bidders baulked at the minimum offer, based on the Protexa offer, set by the Government.

Other potential buyers are believed to have placed a far lower valuation on Cananea not least because of the old labour contract and restrictive practices as well as antiquated plant including a smelter dating from the days of the revolution.

Cananea remains a very rich prize with proven reserves of 1.85bn metric tonnes with a grade of 0.7 per cent copper and 0.009 per cent of molybdenum. Output last year was 126,000 metric tonnes – about 3 per cent of world supplies.

Some form of co-ownership between Mexican interests and foreign companies would be the solution to the problem of selling-off Cananea.

Foreign companies would be able to take up to 49 per cent

The sector last year earned the country $660m and provided a surplus in mineral trade of $500m

share. They would qualify for debt-equity swaps because the sale is a privatisation and below the four-year $3.5bn limit set by the Mexico's outline agreement with its bank creditors.

Last year, Mr Jorge Larrea and his mining concern Grupo Industrial Minera Mexico took into partnership the miners union in mounting their ultimately unsuccessful bid of $1.36bn for Cananea.

Mexicana de Cobre's, the second largest Mexican copper mining company, increased its capacity in 1987 with a new 280,000-ton per year smelter but at 121,108 tonnes its production was slightly lower than Cananea's. The two Sonora mines accounted for 90 per cent of a total record output of 273,481 tonnes in 1988, when copper accounted for 27 per cent of the value of all minerals extracted.

Mexico remains the world's largest silver producer. It produced 2,333 tonnes last year when it accounted for 17.4 per cent of the global total and accounted for 20 per cent of the value of the mining sector's production.

Government policy is to keep mining stakes in categories for which the Mining Law says the Government should be the majority shareholder, such as phosphate rock, sulphur, potash, coal and uranium.

Last year the Government sold a 33 per cent share in Mineral de los Angeles, which has rich deposits in Zacatecas, to Frisco, one of the large private mining concerns, giving the company a majority share in Mexico's largest single mine.

Compania Minera Real del Monte y Pachuca, recently put up for sale, was perhaps most historically redolent of Mexico's silver mines. Having been worked in pre-Colombian times, it was the first to be exploited by the Spanish conquistadores in 1542. With many tunnels already dug it is said to have enough reserves to last for another 40 years.

The silver mining industry has been squeezed by falls in prices to about $5 an ounce, under half the level of 1983. The Chamber of Mines says that output fell by 10 per cent in the first half of 1989.

Peñoles, another large mining concern, recently closed a small mine in Durango, because it had become uneconomic – but is about to open another mine which is said to be 10 times as large.

Mr Alfredo Elias Ayub, under-secretary at the the Ministry of Energy, admits that silver mining operations have not been very profitable since the price plunge but adds that "production costs are still on average under the price."

In August, the Government reduced the royalty levied on minerals from the standard 7 per cent to 5.6 per cent for large operators, 4.9 per cent for medium-sized companies, and 2.4 per cent for the smaller ones.

The precious metal industry, which has only grown at a rate of 1.4 per cent over the past five years, regards it as an archaic imposition and wants it abolished. There is a good chance that it will be.

Semip, the Mining and Energy Ministry, is working on changes in the tax law and regulations governing the industry.

In particular, the Mining Law is to be amended so that foreign companies can have majority control over a venture for a 20-year period under the trust system, introduced with the revision of overall foreign investment rules in May.

Semip also promises to speed up the process of providing information through a computerised system and the processing of applications.

The Government plans to penalise concessionaires who have failed to explore or develop land at their disposal. It is also making more federal land available for exploration.

"There is still a lot of potential for silver and we *should* have some gold," says Mr Ayub. But he is particularly enthusiastic about prospects for non-metallic minerals such as graphite, strontium, fluorite and bismuth which abound. He reports strong interest from Canadian and Japanese companies. "We believe only a very small part of our mineral potential is being exploited," Mr Ayub adds.

That could prove a gross under-statement. Estimates vary but Mr Moises Kultenjuk, director of the Commission for the Promotion, says 15 per cent of Mexico has still to be explored. Mr Hector Calva Ruiz, an ex-president of the Chamber of Mines, has put it at only 10 per cent in comparison with three-quarters of the land which geographical characteristics indicate mineral wealth. There has been little exploration since the revolution.

Mexico is the world's leading producer of strontium, fluorite and sodium sulphate; in second place for bismuth and graphite; third for antimony and sulphur; and fourth for arsenic, barite, mercury and molybdenum and fifth for lead.

With a prolonged closure of Cananea and the silver price so low, the figures are unlikely to look as good in 1989.

Richard Johns

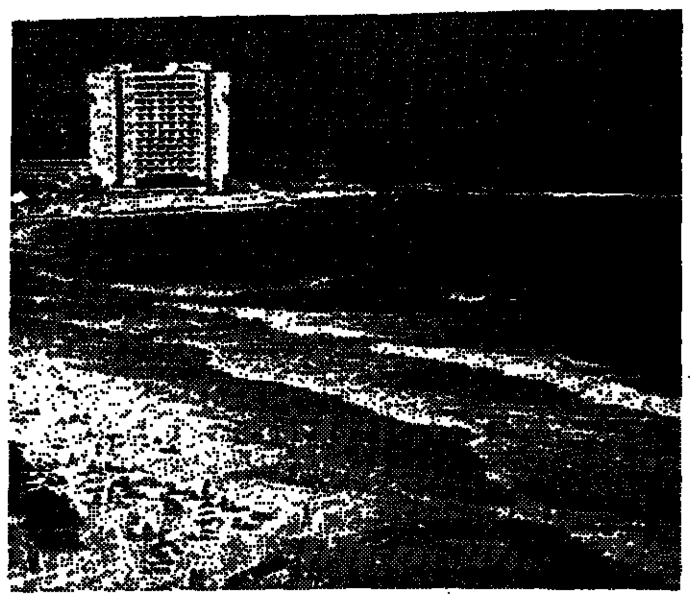
Rebecca Doulton discusses changing attitudes to tourism

Nurturing the 'Mexico set'

EARMARKED by Mexico's *government for accelerated* growth, tourism will be the beneficiary of the most ambitious development programme *to date.*

By 1994, Mexico expects to attract 10m tourists, (doubling the present figure), generate *$5bn dollars in revenue and* secure its position as the second largest earner of foreign exchange after oil exports. With the government-designed megaprojects, tourism could account for two million jobs, an additional 50,000 hotel rooms and establish a 9.8% annual growth rate.

Dubbed the tourism *sexenio*, President Carolos Salinas de Gortari has promised to "intensely promote national and international tourism activities." The administration's new policy is called *apertura.* It involves fresh capital being sought from the private sector and the government seems willing to relinquish its *role as sole developer, financier* and promoter of tourist resorts.



A new economic climate adds to more obvious attractions

Until now, this sector *has enjoyed favourable returns,* but 1988's tourism potential was marred by poor airline service (including Aeromexico's strike and consequent bankruptcy) which deprived many tourist centres such as Loreto in Baja California, Cancun and Ixtapa of a steady flow of tourists.

A 23% decrease in national flights against 1987 was recorded as well as a disturbing 53% room occupancy figure.

Although Mexico received 5.7m tourists and generated $2.6bn in revenue, there was a noted increase in the number of Mexicans travelling abroad; a total of 3.3m Mexicans left the country last year spending a total of $1b.

In addition to erratic transportation problems, Cancun was dealt a severe blow with September's hurricane.

Fonatur, the National Trust for Tourist Development, revealed that Cancun now has a total of 14,838 rooms, a 46% increase over 1988. Room occupancy however, registered only a 28% increase, a drop of 8 points which in turn led to over capacity.

According to Mr Pedro Joaquin Coldwell, director general of Fonatur and former governor of Quintana Roo, "there is not an over-supply of rooms in Cancun, rather a deficit of airlines seats."

To stimulate private investment in the sector, Salinas's administration announced a new regulation to the 1973 Foreign Investment Law allowing foreign investors up to 100% ownership in determined sectors. Resort investments will now enjoy an automatic 30 year extension on their previous maximum 30 year leases.

The strategic private investment in the sector of Mr Carolos Hank Gonzalez as Minister of Tourism (SECTUR) reaffirms Salinas's vow to promote tourism.

Former governor of the state of Mexico, mayor of Mexico City and renowned entrepreneur with a reputation for getting things done, Mr Hank Gonzalez is a sound choice. "We don't want the government to be the owner of everything," explained Mr Hank, "We are making way for the private investor."

The private sector can now buy into the government designed megaprojects which have been planned as self-contained, integral resorts complete with marinas, golf courses, homes, hotels and shopping centres.

While these have enjoyed a favourable reception a number of potential foreign investors have balked from direct investment after their experience with the government's ambiguous debt for equity swap programme.

Swaps were suspended in 1987 as inflationary and several hotel chains were forced to suspend new projects and seek expensive financing for ones they had already begun.

"The government has abandoned its paternalistic attitude of doing it all themselves....they haven't the money and believe that the private sector can do it better," says Mr Kenneth Prysor Jones of the tourism company Estratur.

His company is also conscious of the need to attract a new market of tourist such as the golfer and the yachtsman. "A broad shot approach to tourism won't work anymore," says Mr Prysor whose company has joined forces with California Marina Corporation and with Club Corporation of America.

Other groups have chosen to act outside the umbrella of Fonatur as in the case of Real Turismo, a Mexican holding company made up of the Camino Real and Calinda hotel chains and a real estate company. Mr Leopoldo Gomez, director of Real Turismo, agrees that a "stuffy, purely hotelier attitude" is no longer profitable; they must deversify and offer a whole range of products to the tourist market.

Two Real Turismo projects are *on the drawing board,* one in Manzanillo and another in Los Cabos.

European investors are also entering Mexico's tourism market. Spanish hoteliers such as Grupo Melia Sol have opened a hotel in Cabo San Lucas and *are building more in Puerto* Vallarta and Cancun. Britain's Trust House Forte and Barclay's bank have also shown *interest in different projects* along Mexico's coastline.

To transport the anticipated 10m tourists, Mexico has opened its skies expanding the number of routes from 52 to 600. Non US carriers such as Lufthansa, Iberia, KLM, Air France and SAS are increasing their number of flights and British Airways is considering a direct link to Mexico. Grupo Xabre's recent majority acquisition of Mexicana should help get the airline off the ground with much speculation surrounding Sir James Goldsmith's 6% stake in the company.

Mexico's policy of *apertura* has now opened the northern border to American charter buses. Similarly, Salinas's administration is seeking the expansion of the nation's infrastructure with private capital, as in the case of the Mexico-Acupulco highway.

Mr Hank Gonzalez disclosed that Mexico's annual advertising budget now stands at *$600m against* a mere $18m for 1988.

Mexico's attractions and proximity to the world's largest market, have assured some analysts that a tourism boom is just around the corner.

However, proximity, expensive advertising and sunny beaches are not enough to overcome the nagging tourist complaint regarding service. Ms Lucia Pulido, V.P. of American Express Travel Division, comments, "Mexico is no longer cheap enough to justify poor service. There must be consistency on behalf of the government to promote Mexico, satisfy the needs of the tourist and attend service issues."

AGRICULTURE

Seeds of optimism in reform

ON A trip to the vast agrarian *reform lands of La Laguna in* northern Mexico during the 1988 presidential campaign, then-candidate Carlos Salinas *de Gortari was jeered and* booed.

The future president was hustled away by security guards as a *group of farmers* threw fruit at his bus and angrily denounced his ruling PRI party, the government and corruption in the rural credit bank.

The next day, opposition candidate Cuauhtemoc Cardenas was mobbed by thousands of enthusiastic campesinos who came to his rally in spite of fears the government's rural credit bank would deny them credit for their support to the opposition. The turn-out at La Laguna gave vital momentum to the incipient Cardenas campaign. It came as no surprise, when last month, President Salinas chose La Laguna as the site of the first regional agricultural development programme of his administration.

The ambitious "Nueva Laguna", or New Laguna, undertaking includes projects to improve the utilisation and distribution of irrigation water, dam-building, industrialisation of lumbering, credits for the milk industry, and public works including construc*tion of housing, roads,* industrial parks and water systems.

"La Laguna, countrymen, has entered a profound and irreversible *process that* will positively affect . . . the economic structure, quality of social well-being and political development of the region," Salinas told regional officials.

Located in a dry, traditional cotton-growing region, La Laguna became the site of the first land reform programme in 1936 when former President Lazaro Cardenas, father of Cuauhtemoc, created the first *ejidos,* or collective lands, by handing out large land grants to peasants.

Recovering political support among La Laguna cotton farmers disgruntled over cheating and abuse at the hands of the governmental rural credit bank is an important challenge, but is only one small dimension of the vast and severe problems plaguing Mexican agriculture.

The Salinas administration inherited a shrivelled agricul*tural estate.*

This was the product of sharp cutbacks in public investment occasioned by the *susterity programme* brought on by Mexico's 1982 financial and economic crisis; in this decade, government invest*ment* in agriculture fell from 18 per cent of a larded 1980 federal budget to about five per cent of a lean 1988 budget.

Crop production has declined steadily since 1986. In 1988, agricultural production

La Laguna was the site of the first land reforms in 1936

fell by four per cent compared to 1987, while the agricultural trade balance turned from a $483m surplus to a $268m deficit, according to a recent US Department of Agriculture report.

The most severe aspect of the crisis is the decline in the production of food, affecting both staple grains and animal proteins (beef, pork and fowl).

Seventy per cent of the 23m hectare arable area is planted in grains and oilseeds, and some 5.5m hectares are irrigated.

Most food crops are produced by some 5m peasant families who work the rain-fed lands that make up 75 per cent of Mexico's cultivable area. For this reason, "the crisis in the campesino agricultural sector has a great weight," according to Gustavo Gordillo de Anda, Agriculture Under Secretary for Planning.

Production of basic grains – maize, beans, rice – that *make up the daily diet of most* Mexicans declined during the last three years, with negative growth averaging minus five *per cent in 1988, the Ministry* of Agriculture and Water Resources (SARH) reports. Today, Mexico is Latin America's biggest agricultural importer and the biggest importer of powdered milk in the world.

The value of total agricultural imports increased by more than 79 per cent, from $1.41bn in 1987 to $2.53bn in *1988 as Mexico purchased* increasing amounts of grain and ever more costly grains, oilseeds, beef and powdered milk, to feed the population.

Food imports this year will top 10m tons, a near record level, and will cost approxi*mately* $3.5bn. This is nearly double the estimated $1.8bn Mexico is projected to receive in debt reduction for 1989. Mexico's current food woes stem from many sources, including population growth. Most analysts agree that low guarantee prices offered to producers are a major culprit. The government has kept producer prices low as a means of subsidising urban consumers who make up the overwhelming majority of the Mexican electorate.

The anti-inflation programme, begun under the Economic Solidarity Pact in December 1987, came shortly after the summer harvest and did not align prices for grains or for milk. Then 1988 controlled increases in guarantee prices failed to compensate for the deterioration, leading farmers to plant less and to kill-off dairy herds.

Another leading factor in the food deficit is the long-standing policy bias channelling *federal credit* funds and technical assistance to the intensive export *agriculture* sector that supplies winter vegetables, fruits and tropical products to the U.S. market.

Crop production has declined steadily since 1986

The outlook for export agriculture remains promising: from 1987 to 1988 exports including coffee, strawberries, *tomatoes,* horticulture products, cattle and sugar increased from $1.89bn to $2.16bn, SARH reports.

Speaking before the PRI-affiliated National Confederation of Campesinos (CNC) August 28, President Salinas sounded the alarm on the progressive deterioration in the agricultural sector by setting a 60–day deadline for federal agriculture agencies to revamp the agriculture bureaucracy, draft public investment laws for 1990, set plans for privatising para-state agencies in agriculture and transferring them to rural producers, allowing for co-investment from private enterprise.

Analysts predict the new agriculture policy will bring changes to the agrarian reform *ejidos,* which has been successfully *abetted* by government for purposes of political mobilisation and neglected as production units.

It is expected rural lands will be opened to private and foreign investment in a push to make the countryside self-sufficient.

Government officials are

Most food crops are produced by some 5m peasant families

already meeting with foreign investors seeking support for development of seven "agro-industrial corridors" that link cultivated areas with processing plants, highways and ports for *shipping export products,* according to Mr Gordoillo.

Private capital is sought to develop agro-processing packing and freezing plants, and the government may lift restrictions *top* allow for private investment in hydraulic works.

By concentrating subsidies and government expenditures *in the peasant agriculture* sector it is hoped that food imports can be reduced by half over the next six years. "We *know that in many zones of* the country we should continue growing corn though the costs are not as low as in the US corn belt," says *Pedro* Ojeta Uallada, director of the National Food Council.

Until new policies can raise *agricultural production,* the government will maintain food subsidy programmes. The most socially significant is the – *tortibons coupons that last* year provided some 6m Mexicans with an 80 per cent discount on tortillas.

This maize flat bread, staple since before the Conquest is eaten with every meal and has become an increasingly essential ingredient *of the daily fare* as inflation and the economic crisis have forced the majority of Mexicans to cut eggs and *meat out of their diet.*

Lucy Conger

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COMPANIES & MARKETS
Thursday October 12 1989

INSIDE

End of an adventure

Dalgety, the UK international foods and agribusiness group, has finally disposed of its ill-starred commodities business for £87.4m. Four years ago, Dalgety irritated the City by paying £120m for commodity broker Gill & Duffus. Yesterday's sale of the cocoa, sugar and coffee trading businesses was made at a discount to Gill's net asset value of £99.1m and Dalgety may have to write off a further £5m of miscellaneous assets. Page 24

Malaysia unlocks the bank

The move by Sanwa Bank, Japan's fifth largest commercial bank by assets, to buy a 15 per cent stake in a small Kuala Lumpur bank does not look significant at first sight, but it could prove to be the start of something big. For Bank Negara, Malaysia's central bank, is beginning to encourage links with foreign institutions in an effort to prop up the capital market and strengthen domestic banks' capital structures, reports Lim Siong Hoon. Page 21

Tales of the river bank

On the banks of the Liffey in Dublin the cranes are at work. They are being used to construct the Financial Services Centre — the Irish Republic's attempt to win some action in the international financial services market. A 10 per cent tax rate to the year 2000 is on offer to anyone conducting offshore financial business from the centre. Thus far, 600,000 sq ft has been contracted for, with such companies as Chase Manhattan, Bowring, Daiwa Securities, General Electric Finance, Sumitomo and Bayerische Vereinsbank among the takers. David Lascelles reports. Page 22

France's Indian summer

The onset of autumn brought mixed results for Europe's markets last month. Some, like France — where takeovers and stakebuilding, and speculation about them, made it the most energetic market — had a colourful and lively time, while Italy, for example, saw turnover shrink 19.5 per cent after the 94 per cent surge between the end of May and the end of August. *Jacqueline Moore reports.* Page 40

Feeding perestroika

The high-level talks were one thing, but for real proof that there is a thawing in US-Russian relations you have to look at the nitty-gritty. And into this category must surely come chicken parts. Fifteen thousand of the things were last week sold by the US to the Soviet Union in the first US poultry sale to the Russians since President Jimmy Carter (above) imposed an agricultural trade embargo in 1980. This deal and the proposed disposal of 75,000 tonnes of surplus butter demonstrate just how far the business has developed beyond grain sales, writes Nancy Dunne. Page 28

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
Asko Deutsche	693	+	33	Nav. Mixte	1509	+	111.3
Munich Rueck	2390	+	45	UFB-Locabail	611	+	18.4
Falls				**Falls**			
Daimler-Benz	760.5	-	20.5	Eurafrance	2610	-	177.2
Hochtief	905	-	30	Europe No1	895	-	64.9
Linde	802	-	11	Maisons Phenix	74.5	-	5.8
Varta	416	-	12	Rochette	155.2	-	10.9
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
McGill Manuf.	72½	+	14½	Hoko Fishing	1040	+	107
Falls				Shinwa Ind.	1270	+	200
AMR	89¾	-	7	Toyoda Mach.	2850	+	240
MGM/UA	20⅛	-	1⅞	**Falls**			
Motorola	58¼	-	2¼	Okuma	2290	-	200
Sheraton	11	-	2¼	Sekisui	2400	-	200
USX	37⅜	-	2⅞	Uchida Oil	1210	-	100

New York markets as at 12.30pm.

LONDON (Pence)							
Rises				Austin Reed	410	-	7
BTR	400	+	10	Jaguar	698	-	17
Hunter Saddley	323	+	3	Lloyds Chemists	195	-	15
Lucas Ind	603	+	12	London & Man.	295	-	12
Saatchi	347	+	15	News Int. Spec.	330	-	22
Sainsbury (J)	252	+	2	Pearl Grp.	834	-	12
Tay Homes	104	+	2	Refuge	587	-	12
Unilever	649	+	2	Reuters	915	-	26
Vickers	257	+	1½				
Falls							

Volvo in talks with Renault

By Kevin Done, Motor Industry Correspondent

THE Volvo share price jumped yesterday amid mounting speculation in financial markets that the Swedish car and truck maker is engaged in far-reaching negotiations with Renault, the French state-owned car and truck maker.

Swedish press reports suggested the talks could lead to an eventual merger of the two companies' automotive operations, which would create the world's biggest truck maker. Last night Volvo confirmed in a statement that "discussions of a preliminary nature are under way with Renault at present."

The company refused to comment on the nature of the discussions or the possible outcome. Volvo also confirmed that it was conducting talks with Enasa, the Spanish truck maker, but said that these negotiations were "independent of discussions with Renault."

Mr Pehr Gyllenhammar, Volvo chairman and chief executive, said recently the group had held "exploratory talks" with Renault Vehicules Industriels, the Renault group's truck subsidiary.

"We are trying to find if there is a mutual interest, how attractive are we, what can they offer, what can we offer. They are a company that have restructured and recovered beautifully."

Mr Gyllenhammar said that RVI was strong in France and had a good position in southern Europe, whereas Volvo had a larger international coverage of the market. "We could be complementary."

Volvo and Renault already have a long history of links in the car sector. In 1979 Renault took a minority stake in Volvo Car, the group's Swedish car subsidiary which subsequently rose to 15 per cent. Volvo's car operations were in financial difficulties at the time and were facing heavy product development costs.

The 1979 agreement was potentially far-reaching and was aimed at "co-operation in research, product development and production." By the mid-1980s Renault's car and truck operations had plunged deep into loss, however, and Volvo bought out the Renault stake at the end of 1985.

Renault is still the main supplier of engines to Volvo Car BV, Volvo's Dutch associate. Volvo takes V6 engines for its top of the range cars in Sweden from a Renault/Peugeot joint venture plant in France. Volvo also markets Renault cars and vans in Scandinavia.

DRG attacks Franklin as a 'profiteer'

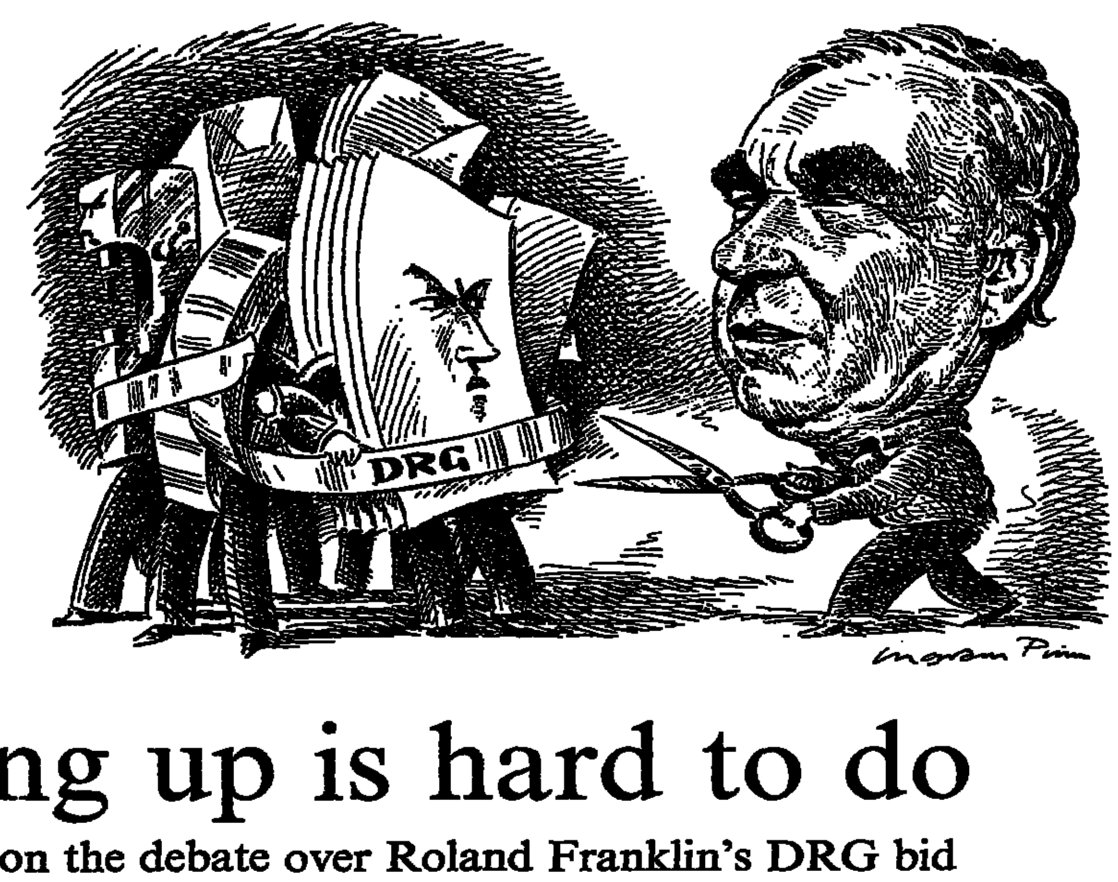
By Clare Pearson in London

Sir John Milne, chairman of DRG, the UK paper and packaging group, has dismissed the £697m hostile takeover offer from Mr Roland Franklin's Pembridge Investments as a "clear example of short-term profiteering" at shareholders' expense.

His comment is made in DRG's defence document which presents the company's reasons for denying Pembridge's claims that it has a "conglomerate nature" and that its form of organisation has an inherent disadvantage for shareholders.

But the strongest reason for shareholders to reject bid is that Pembridge is "trying to buy your shares on the cheap," Sir John claims in the document.

See Page 24



Breaking up is hard to do

Vanessa Houlder on the debate over Roland Franklin's DRG bid

When Mr Roland Franklin last month launched his £697m ($1.08bn) bid for DRG, the maker of familiar brands such as Basildon Bond and Sellotape, a fierce propaganda war was virtually assured. There could scarcely be sharper contrast than that between Mr Franklin, a veteran of the secondary bank Keyser Ullmann which failed in 1975, and the long-serving management of DRG.

The key question in the debate over DRG's future is whether the company, an apparently successful paper, packaging and engineering group, should be broken up as Mr Franklin wants or whether the management is justified in fighting off the bid on the grounds that it has provided good returns to shareholders.

In putting his case, Mr Franklin draws on his experience as chief lieutenant of Sir James Goldsmith in his break up bids in the US. Having sold nearly two dozen operations from the US forest product groups Diamond International and Crown Zellerbach, he says that operations almost always benefited from being "re-located".

There are numerous examples, he claims, where leveraged buy-outs, public flotations and sales resulted in expansion, increased job opportunities and personal opportunities for management.

These sentiments are vigorously rejected by managers in some of DRG's divisions who claim that the group already has a decentralised, entrepreneurial culture. Mr Ian Copley, managing director of DRG Plastics in Bristol, scoffs at the idea that his business would do better free of DRG, even if as Mr Franklin has hinted, it was independently floated on the stock market.

"What really upset me was Franklin's remark that the management were like caged lions," he says. "We are not waiting to be set free, we are already free."

A similar sense of autonomy is experienced by operating management in other divisions, although it is more pronounced in DRG's successful businesses. It is perhaps significant that about one quarter of DRG is managed by people who joined the company through selling a business.

But even if the managers feel no sense of frustration it is not clear how far they benefit from being part of such a diversified group. DRG's interests encompass stationery, medical and food packaging, cartons, office and print supplies and engineering, where its activities range from submarine weapon ejection systems to batteries.

Mr Franklin argues that the true value of the company will not be reflected in such a diversified group and that the company should be remoulded into a single core business. The peripheral activities such as engineering, should be sold, he says.

He believes that central management can actually hinder operating management. "I reckon business is 50 per cent calculation and 50 per cent gut feel. In a conglomerate there is no gut feel, and you are blunting the edge of the management," he says.

But the managers do not share the view that they would be better in a more focused group. Those in the group's subsidiaries are generally complimentary about their parent's attitude to investment.

The capital expenditure issue is at the heart of DRG Plastics' concern about the Franklin bid. Mr Copley believes that the heavy investment the group has been undertaking could be jeopardised by being sold, being floated or simply by the high levels of debt carried by Mr Franklin before the completion of his proposed asset sales.

Supporters of DRG's existing structure also point to a degree of technical interchange between the divisions. For example, research into adhesive and coatings is relevant for sticking envelopes and laminating packaging.

There is also a strong feeling that the DRG structure – the combination of a number of businesses subject to different industrial cycles – gives financial stability.

For all that, DRG is vulnerable to the criticism that its structure – largely an accident of history – lacks logic. Its Strachan & Henshaw subsidiary, for example, entered the scene after the war, when Robinsons of Bristol bought it to do maintenance on its paper-bag machinery. Then in 1966 Robinsons joined up with the stationery company, Dickinsons of Hemel Hempstead, because of an acquisitive threat to both.

In its defence, however, DRG can point to its creditable record. Its return on capital is over 28 per cent (although flattered by including property values at original cost) and it has poured £145m into capital spending programmes over the past five years, compared with depreciation of £75.3m. It also has conservative levels of borrowing, and it has gradually reshaped its business, by selling low-growth operations such as paper sacks, and moving into higher growth markets, such as self-adhesive technology.

DRG also appears to score well with its work force. At Strachan & Henshaw in DRG's Bristol stronghold, there is a strong sense of loyalty to the company, underpinned by a fear of what would happen when Mr Franklin carried out his plan to sell the company.

Job losses, however, would be nothing new for DRG's employees. Over the years, the company has cut its work force from a peak of 27,000 to 13,000. Furthermore, advocates of Mr Franklin's bid can argue that fears about jobs stem from natural but possibly undeserved concern about uncertainty and change.

In the view of Mr Franklin – whose investment group stands to make a very healthy financial return from its investment through a successful break up – the break-up process is important to in preserving viability and effectiveness of industry in the increasingly competitive conditions likely to develop in the 1990s.

Since many of them are facing an uncertain future if the takeover should succeed it is not surprising that those in the company take a rather less sanguine view.

Given DRG's respectable record, Mr Franklin's lack of a track record as a manager and the fact that his successes in breaking up companies were scored in a bull market in the US, it is far from clear that the potential rewards from a break-up of DRG outweigh the very considerable risks.

Berisford invests $5m in Polish sugar deal

By Clay Harris in London

BERISFORD International's food and agribusiness subsidiary is to invest about $5m to take control of two Polish sugar factories at Unislaw and Ostrovite.

Profits on the investment will arise from its share of hard-currency export sales of sugar from the factories.

The project is one of the largest Western investments in Poland's food-processing industry, and the first by a British company.

Both the previous Communist administration and the new Solidarity-led government have identified the sector – potentially a key export earner but suffering from chronic under-investment – as one of the main areas for joint ventures.

Berisford Bristar, owner of British Sugar, the beet processor which dominates the UK sugar market, will hold 51 per cent of the joint venture. The 49 per cent Polish minority will be split between Torun Sugar Factories Enterprise, the factories' present owner, and Rolimpex, a foreign trade body.

Mr Peter Jacobs, Berisford Bristar's managing director, said his company's investment, to be made over three years, would take the form of expertise and equipment from the West.

Its advice was intended to enable Polish beet producers to achieve better yields and more efficient processing of their crops.

Moreover, efforts would be made to achieve more effective use of fuel and improve the factories' environmental record, Mr Jacobs said.

If the venture succeeded, Berisford might take partial ownership of some of Poland's other 76 sugar factories.

Last year Poland produced 1.6m tonnes of sugar, of which 138,000 tonnes were exported.

Warsaw is expecting foreign equity and loan capital of nearly $200m from joint ventures already established, most of them since the beginning of this year.

Move to restructure Saatchi

By Alice Rawsthorn in London and James Buchan in New York

SPECULATION over the future of Saatchi & Saatchi, the embattled UK marketing group, intensified yesterday when Southeastern Asset Management, its largest shareholder, announced it had been approached about a restructuring of the company.

Southeastern, a small US investment company based in Tennessee, said in a statutory filing in Washington that it did not intend to bid for Saatchi but that it may become "more active or assertive" in its relations with the group's management.

Meanwhile Fininvest, the Italian company controlled by Mr Silvio Berlusconi which owns 1 per cent of Saatchi, issued a statement to the Takeover Panel in London saying that it did not intend to bid for Saatchi. However, it may review its position "in the light of changing circumstances" especially if a bid was made for "all or part of the company."

Saatchi's shares rose by 15p to 347p in London yesterday on hopes of a takeover. Southeastern said it had received approaches from "one or more third parties" about a possible restructuring of Saatchi.

It may discuss the proposals with Saatchi but stressed that they did not include changes in control or management. Southeastern might, however, discuss possible disposals, acquisitions and changes in Saatchi's strategy.

Early last month Southeastern emerged as Saatchi's largest shareholder when it announced it held 9.4 per cent of the shares. It has topped up its holding to 10.25 per cent in the past week or so. There was widespread belief on Wall Street yesterday that Southeastern is trying to attract ideas and investors for a restructuring to boost Saatchi's shares.

The consensus among London and New York analysts is that Saatchi is vulnerable to a bid, but that prospective bidders are likely to wait until after the group's preliminary results are published in early December.

The results are universally expected to be disappointing. Mr Neil Blackley, marketing analyst at James Capel in London, has reduced his profit forecast for the year to September 30 from £160m ($240m) to £67.5m.

Saatchi has been troubled by poor performances in several businesses and, recently, by difficulty in selling its management consultancy interests. It has been looking for a new group chief executive and chief financial officer for months.

Qintex-MGM/UA deal collapses

By James Buchan in New York and Chris Sherwell in Sydney

MGM/UA, the Hollywood film and television studio that has been touted for sale for more than a year, was yesterday again on the market after talks broke down on a $1.5bn deal to sell the business to Qintex of Australia.

The collapse of the Qintex deal, which occurred late on Tuesday in a welter of recrimination, appears to leave Mr Rupert Murdoch in a strong position if he wants to make a new offer for MGM/UA.

Mr Murdoch, who runs a worldwide communications business that includes the 20th Century Fox studio, had offered $1.4bn for the business last month, only to be topped by the Qintex offer.

But the ignominious breakdown in talks is a setback to Mr Christopher Skase, the Australian entrepreneur who had hoped to use MGM/UA and its film library as a platform to turn to his Australian media company into a global operation.

In a savage commentary from Beverly Hills late on Tuesday, MGM/UA alleged that Mr Skase was unable even to raise financing to cover the $50m security deposit on the deal.

Mr Kirk Kerkorian, the main shareholder in MGM/UA, was quoted as saying that Qintex had had "financing problems".

Both sides were yesterday headed for a battle in the courts. In Beverly Hills, MGM/UA on Tuesday filed suit demanding at least $50m in damages for breach of contract and fraud.

In a letter to the Brisbane stock exchange, Mr Skase said that MGM/UA had kept making additional demands "in bad faith". He said Quintex would pursue "all appropriate remedies", including a "substantial claim for financial damages".

But, while mud was being slung across the Pacific, attention on Wall Street was focussed on Mr Murdoch's possible intentions.

Stock in MGM/UA, though it is one of the most shop-worn properties in Hollywood and the subject of repeated on-off deals, remained steady on Wall Street yesterday, down just $⅛ to $20⅛ in early trading. Mr Murdoch's spokesman in New York declined to comment.

Yesterday, there were sharply conflicting reports about the grounds for the breakdown. Mr Jeffrey Barbakow, chairman and chief executive of MGM/UA, said Qintex "repeatedly misled us" about its ability to furnish a letter of credit of $50m as security deposit on the deal.

In the letter to the Brisbane stock exchange, Mr Skase said that Qintex had raised the $50m agreed, but MGM/UA made subsequent demands.

INTERNATIONAL COMPANIES AND FINANCE

Paribas share rise sparks bid talk

By George Graham in Paris

THE share price of Paribas, the French merchant banking group, rose strongly again yesterday in early trading, but senior Paris bankers dismissed with some amusement speculation that the company might be the target of a takeover attempt.

Compagnie de Navigation Mixte, the conglomerate headed by Mr Marc Fournier which last week agreed to sell 50 per cent of its Via insurance activities to West Germany's Allianz for FFr6.5bn ($1bn), is understood to have been behind sizeable purchases of Paribas, countering an increase in Paribas's stake in his company.

Paribas has already disclosed a stake of 7 per cent in Navigation Mixte, and is now understood to have come close to 10 per cent.

It has also received the approval of the banking authorities – necessary because the company has some *banking subsidiaries – to pass* the 10 per cent barrier.

Senior bankers said yesterday Mr Fournier might have felt the increase in Paribas's stake was a hostile move, especially since Assurances Générales de France (AGF), the state-owned insurance company, has been increasing its own holding in Navigation Mixte with a distinctly acquisitive gleam in its eye.

They said it was likely Paribas was seeking to build a large enough stake in Navigation Mixte to ensure it was an *active player in any eventual* restructuring or battle for control of Mr Fournier's group – one of the eternal bid targets of the French stock market.

Mr Fournier's own purchases of shares in Paribas, on the other hand, do not appear to have been the sole cause of the rise in the group's share price, which has risen from FFr517 last Thursday to FFr589 yesterday.

Some of Paribas's core shareholders have also been building their stakes, and one, the Axa insurance group, passed 5 per cent on Monday. Others may follow in the months to come.

Markets, Page 45

SKF starts $107m tender offer for McGill

SKF, the Swedish roller bearing group, has started a $107m tender offer for McGill Manufacturing, the US bearings maker, writes Our Financial Staff.

McGill has annual turnover of around $110m and has a workforce of 1,400. It gets some 80 per cent of profits from bearings, with the balance coming from electronics.

SKF said the offer, which is worth $70 a share, and withdrawal rights expire on November 7, unless extended.

It is conditioned on the receipt of at least a majority of McGill's shares outstanding, *approval by the McGill board* and action by the board to exempt the transaction from Indiana anti-takeover laws.

Earlier *this* year BroadBeach Associates, which then owned about 7 per cent of McGill, had offered to buy McGill for $62 a share and had said it might increase its offer if additional value for McGill could be demonstrated.

At the time, McGill – with about 21 per cent of its shares controlled by company insiders – said that it was not interested in the BroadBeach takeover offer.

Rising oil prices lift Total

By William Dawkins in Paris

CFP, the French state controlled Total oil group, yesterday unveiled a more than eightfold increase in net profits for the first half of 1989.

Gains made from holding oil stocks at a time of rising prices, and a strengthening dollar, accounted for most of the rise, to group net profits excluding minorities of FFr1.9bn ($296m), against FFr237m in the first half of 1988. *The latest figures include* a stock profit of FFr1.7bn, against a stock loss of FFr390m in 1988.

Total's stock profits and losses tend to be comparatively large because its refineries are generally further from its oil production than its main competitors.

The results, a FFr200m loss on upstream activities, a turnround from a FFr400m profit in the first six months of 1988, reflected exchange rate losses and higher exploration spending, said *the company*.

Downstream earnings were FFr2.3bn, against a FFr400m loss in the first six month of 1988.

Group turnover for the six months climbed from FFr40bn to FFr51bn, under the combined influence of dollar strength and an underlying increase in tonnage deliveries.

Despite the first half advance, Total was cautious about forecasting full year results. Mr Alain Brion, finance director, said the full year outturn depended on too many variables – *the dollar*, oil and US gas prices – to put a figure on the likely overall profit for 1989.

Contacts between Total and Orkem, the state-owned chemicals group, are continuing, Mr Pierre Vailland, Total managing director said. He said the two group's financial and *industrial operations* could have considerable joint potential.

There is widespread speculation that a link is being negotiated between the two companies as part of the Government's plan to reorganise the French petrochemicals sector.

Orkem chairman Mr Serge Tchuruk is due to be confirmed as a Total director next month.

Consob wants Mediobanca, IFI statement

CONSOB, the Italian bourse regulatory authority, has requested a public statement from merchant bank Mediobanca and Istituto Finanziaria Industriale (IFI), the Agnelli family holding company, following the disclosure that Mediobanca has acquired a 23 per cent shareholding in IFI, writes Our Financial Staff.

The Consob is demanding details of how the price of the acquisition was determined, and any connection it might have *with the acquisition of* Galbani, the Italian food company, by IFI and BSN, the French foods group.

Details of the Mediobanca purchase of IFI shares emerged earlier this week with the publication of the Mediobanca report and accounts. The merchant bank paid L303.5bn ($218m) for the IFI stake.

The Consob has come under strong criticism for failing to protect minority shareholders and avoid market turbulence. Preferred shares of IFI fell violently on Tuesday following the reported change in share ownership.

The regulatory watchdog has been criticised frequently for failing to protect the inter*ests of minority shareholders*. Early this year minority stockholders were damaged when there was no monitoring of Ferruzzi's announcements for reorganisation of Montedison.

Many financial analysts were also not totally satisfied by the explanations offered by IFI and by Giovanni Agnelli & Co, the limited partnership *that before the Mediobanca* transaction had controlled all of IFI's shares.

Polygram buys A&M for $500m

By Laura Raun in Amsterdam

POLYGRAM, the music production company belonging to Philips, the Dutch electrical group, is to buy A&M Records *of the US for about* $500m, in another bold move to expand its popular music labels.

To finance the takeover, and the recent acquisition of Island Records, Philips may publicly float a minority of Polygram before the end of this year, Mr Jan Timmer, a Philips board member and former head of Polygram, said yesterday. He declined to comment further.

A&M is a major independent production company with sales of $300m in 1988. Its artistes include Sting, Janet Jackson and Bryan Adams. It was founded by Mr Herb Alpert and Mr Jerry Moss in the garage of Mr Alpert's Los Angeles home. The two founders and Mr Gil Friesen, president, will continue to run the company.

Polygram, which is among the top three recorded music companies in the world, has built much of its reputation in classical music labels such as Philips and Deutsche Grammophon.

But the acquisition of A&M and Island Records will significantly boost its pop labels, including Casablanca and Decca.

Polygram is thought to have paid about $330m for Island Records, a reggae and pop label. The $830m needed to finance the two purchases will come from Polygram's own cash reserves, proceeds of Philips' sale of defence activities and the probable flotation of Polygram.

Securities analysts in Amsterdam believe Philips will float 25 per cent of its 90 per cent shareholding in Polygram to raise about Fl 1.2bn ($563m).

Polygram expects sales of more than $2bn this year and has a 15 per cent share of the world record market, including 45 per cent of the classical market.

Hafnia acquires FLS unit

By Hilary Barnes in Copenhagen.

HAFNIA, the Danish insurance *group, has made its fourth* major investment so far this year with the acquisition of Forenede Assurandoerer for DKr325m ($44m) from the Danish industrial group, FLS Industries.

The company specialises in industrial insurance and risk management, as well as reassurance. Its premium income in 1988 was DKr131m and profits totalled DKr13m. Equity capital stood at DKr131m.

Hafnia said the deal will *strengthen its position in* industrial insurance and risk management. Earlier this year Hafnia acquired Prolific, a UK insurance company, for DKr1bn, made a DKr300m equity investment in Banque Parisbas and acquired 25 per cent of Cambio & Valoren Bank in Zurich.

Hafnia said the unit will *continue to handle FLS Industries'* insurance as part of a long-term accord on insurance between the two groups. Hafnia, it said, will benefit from the unit's experience in advising on captive insurance and risk management, and in the international reinsurance field.

● Swedish real estate and building conglomerate Nordstjernan plans to sell its 30 per cent stake in forest machinery group Kamyr for SKr1bn ($153m).

The buyers are Kvaerner Industrier of Norway and A. Ahlstrom of Finland.

After the deal Kamyr will be split up. Its operations in North America will go to Ahlstrom while Kvaerner will take on the activities in Europe, Asia and South America.

SCA grows 7% to SKr1.81bn

By John Birton
in Stockholm

SVENSKA Cellulosa (SCA), Sweden's second largest forest products group, reported a 7 per cent increase in profits (after financial items) to SKr1.81bn ($278m) for the first eight months of 1989.

It forecast earnings for the full year will be level with last year's figures.

Group sales increased by 24 per cent to SKr16.14bn, boosted by revenues from four recently acquired companies, including Laakirchen in Austria and Italcarta in Italy.

The SCA Packing group and the Bakab hydroelectric group showed the biggest profit increase this period. Earnings for the packing division climbed by 63 per cent to SKr142m on sales of SKr1.94bn.

Alusuisse takes stake in Morin

By William Dullforce
in Geneva

ALUSUISSE, the Swiss aluminium and chemicals group, in a drive for market share in the packaging business, has bought for an undisclosed sum a 40 per cent stake in Raymond Morin, the leading French supplier of flexible food industry packaging.

Based at Sarrebourg, Raymond Morin employs some 400 people and realised a turnover of FFr350m ($54m) last year. It holds an important share of the French market in packaging for cheese, dairy products, coffees and soups and exports some 30 per cent of its output.

Alusuisse has almost doubled its annual turnover in the packaging sector to nearly SFr1bn ($600m) since it started buying up companies a year ago.

Granada sells Laskys to Comet

By Nikki Tait and Maggie Urry

GRANADA GROUP, with interests spanning television, bingo and motorway services, is selling its troubled Laskys electrical goods retail chain to Comet, a subsidiary of Kingfisher. Kingfisher combines the Woolworth, Comet, B & Q and Superdrug retail businesses.

Comet, Britain's second largest electrical retailer with 308 shops, is paying £3.6m ($5.6m) and will take on about £5.3m of bank debt, making a total consideration of £8.9m. This is a sharp reduction from the £30m which Granada paid three years ago, when it bought Laskys from Ladbroke Group, the hotels and leisure company. It has since increased the number of stores from 53 to 58.

However, Mr Derek Lewis, Granada's chief executive, said the figures were not entirely comparable; Laskys had about £2m cash when Granada bought it, and carried £15m-worth more stocks than now.

Comet is buying Laskys in time for the Christmas period when the bulk of an electrical chain's sales are made. Mr Nigel Whittaker, corporate affairs director of Kingfisher, said this was a good opportunity to add market share, even though trading conditions in electrical *retailing* are currently "difficult." The purchase would increase Comet's market share from 7 to 8 per cent.

Having lost about £650,000 in 1985-86, Laskys has wavered between breaking even and making annual losses of about £1m during the three years of Granada's ownership.

Unisys to move into imaging

By Alan Cane

UNISYS, the world's second largest manufacturer of mainframe computers after IBM, yesterday announced its entry into the fast-growing area of computer-based imaging systems.

Such systems involve a combination of technologies which make it possible to capture the image of a document, for example, store it in a computer system and manipulate it on a computer screen.

As the cost of these technologies have declined, imaging systems have assumed increasing importance in commerce and industry, as a powerful method of cutting the cost of paper handling.

According to Unisys, the market for imaging systems, which was about $880m last year, is expected to grow at a compounded annual rate of more than 50 per cent to reach $6.5bn by 1993.

Unisys announced its imaging strategy, named "Infoimage," at a series of launches in New York, London and Sydney.

The importance of Europe to US mainframe manufacturers, all of whom are being affected by a pronounced softening of their home market, was emphasised by the fact that the European announcement was made by Mr Frederick Meier, head of Unisys's newly formed imaging systems division, based in Pennsylvania.

He said that Unisys planned to become the market leader and was investing more than $50m a year in the technology. He predicted the company would turn over in excess of $700m from imaging systems in 1993.

Unisys plans to launch imaging products in three principal areas – engineering design, geographic information systems and finance. It already has some 30 per cent of the world market for financial document processing systems.

Mr Meier accepted Unisys would face competition from IBM, which has already launched its own "Imageplus" system, Digital Equipment and Wang.

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- Forecast pre-tax profits of approximately £2.0 billion – up 22 per cent
- Forecast earnings per share of approximately 76.5 pence – up 22 per cent
- Proposed further dividends of 20.7 pence. Total for the year of 30.0 pence – up 49 per cent

and for the future...

- A direct stake in:
  - Argos, one of the UK retailing success stories of the decade, with forecast 1989 trading profits of approximately £63 million
  - Wiggins Teape and Appleton, a combined international force in specialist paper and pulp, with forecast 1989 trading profits of approximately £212 million
- A higher dividend payout ratio starting in 1989
- Proposals to authorise the buy-back of up to ten per cent of the Company's shares
- The orderly divestment of US retailing and certain other businesses

and for long term growth.

- A group focused on financial services and tobacco with forecast 1989 pre-tax profits of approximately £1.64 billion – equal to the entire Group in 1988
  - Steady earnings growth plus the benefits of cash flow from tobacco to complement the more rapid growth expected from financial services
  - Outstanding prospects for growth in high quality earnings and dividends based on strong market positions and excellent brands

B·A·T INDUSTRIES

BUILDING SHAREHOLDER VALUE

Proxy Forms for the Extraordinary General Meeting on 19th October must be received by 12 noon on 17th October.

** 1989 forecast figures are approximate. The assumptions on which this forecast is based are set out in the document 'Building Shareholder Value', which was sent to all shareholders of B.A.T Industries on 26th September 1989. Copies of this document are available from The Company Secretary, B.A.T Industries p.l.c., Windsor House, 50 Victoria Street, London SW1H 0NL.*

INTERNATIONAL COMPANIES AND FINANCE

Big-screen romance turns sour

Chris Sherwell on Qintex and MGM/UA's acrimonious split

At the end of April, after spending three weeks in Hollywood, a delighted Mr Christopher Skase, head of Qintex Australia, said in an interview: "We've not encountered anything of a negative nature," adding "No shocks. We're very pleasantly surprised."

Mr Skase was referring to United Artists, one of seven big US film studios, which he planned to purchase under a complex US$1bn deal announced earlier that month with Mr Kirk Kerkorian, who controlled 82 per cent of the MGM/United Artists Communications group.

Six months later Mr Skase's bid to become a movie mogul has generated enough shocks to surprise an electric eel. First, the share price of his main operating company, the Qintex Australia media and resorts group, has plummeted to a fraction of its levels early in the year.

Then he was almost gazumped by Mr Rupert Murdoch at the end of September, just as he was about to conclude the US transaction.

Now his purchase, revised upwards to US$1.5bn to embrace the full MGM/UA group, is suddenly off amid rancorous recrimination. Each party is accusing the other of breach of contract and fraud.

Qintex initially rallied on the Australian stock exchange to 53 cents. But fears about lengthy and expensive litigation drove the shares back to 44 cents, down 2 cents on the day.

Although this is still above last week's brief low of 40 cents, it is far below the 1989 high of A$1.70.

Likewise, Mr Kerkorian is expected to sell MGM/UA to someone else – with Mr Murdoch, owner of 20th Century Fox, at the head of the queue. On Tuesday Mr Murdoch said he was still interested, but said it was "a matter of price" – his earlier offer of US$1.4bn was "the limit."

Given the debt burden facing Mr Murdoch's News Corporation, and his warning on Tuesday that this year's earnings "will not show their customary increase," News Corp's shares yesterday weakened on the prospect of another big acquisition. They finished at A$15.30 in Sydney, down A$1.15 in two days.

To most people, however, a fight between Mr Murdoch and the wily Mr Kerkorian at least looks like a battle between two big fish, rather than, in Qintex's case, a minnow against a whale.

So what went wrong with the MGM/UA transaction between Mr Skase and Mr Kerkorian? When the first deal was announced in March, the two were close – "like father and son," says a Skase publicist. That changed when Mr Kerkorian entertained News Corp's bid.

This week, as the second deal dissolved, the two were exchanging threats and accusations.

At the centre of their dispute is a US$50m letter of credit Mr Skase was to deliver to Mr Kerkorian as a deposit on the deal. Mr Kerkorian says it was not delivered, a fact Mr Skase acknowledges. But they differ on the reasons.

MGM/UA has implied Qintex could not raise it. The American group adds that it offered to reduce the amount or accept substitute security and that it was willing to proceed if it could, at the same time, consider better offers.

Mr Skase says the US$50m had already been raised and placed with Crédit Lyonnais, his banker. The payment to MGM/UA had not been authorised because of fresh demands by Mr Kerkorian for at least US$150m and for an opportunity to entertain alternative offers.

Kirk Kerkorian: looking for another buyer

In a letter to the stock exchange yesterday, Mr Skase said these subsequent demands were "proposed in bad faith by MGM." He added they "shifted daily and, in essence, reflected attempts by MGM to extract higher economic value from the transaction."

Behind this, Qintex officials suggest, was Mr Kerkorian's realisation that Mr Skase had pulled off with his first deal an intelligent transaction – proven by Mr Murdoch's higher offer and then again with Qintex's improved bid, the value of which could be justified by Sony of Japan's high-priced bid for Columbia.

From the start, however, the principal worry about Qintex's plans was that it was biting off more than it could chew. Over the months this sentiment has been reinforced by other difficulties the group is facing.

In the case of its media interests in Australia, where it owns the Channel Seven network, Mr Skase is battling with the Australian Broadcasting Tribunal, the watchdog agency, over the way he acquired his television stations.

More importantly, Australian commercial television generally is under intense financial pressure because of heavy debt burdens, increased programming costs and weakening advertising revenues.

Qintex is also thought to face problems with its resort interests because of this year's tourism slowdown and the impact of Australia's protracted pilots' dispute, which grounded internal flights for three weeks and has disrupted schedules for two months.

The principal worry about Qintex remains its overall debt level, particularly in the face of rising interest rates. Qintex Australia's debt is estimated at A$900m (US$703m), with another US$100m for its 42 per cent-owned US offshoot, Qintex Entertainment, through which the MGM/UA merger was to have proceeded.

In spite of this, Australian Ratings, the local credit agency, did not regard the MGM/UA deal as sufficiently disturbing to downgrade Qintex Australia's rating from its low BB minus level, meaning the group has "only adequate capacity to repay interest and debt."

But now the MGM/UA issue is in the courts and Mr Skase must regroup and consolidate, concentrating on his existing businesses. Attention will focus next on Qintex's Australia's annual results, due later this month. No shocks here, though: the company has already foreshadowed a record A$42m net profit.

Charges force Chase into loss

By Anatole Kaletsky in New York

CHASE Manhattan, the third largest US bank, reported a huge net loss after taking $1.26bn worth of after-tax charges in the third quarter.

The charges, which Chase announced last month, related mainly to the bank's Third World loan portfolio. Even excluding the charges, the results were significantly lower than a year ago.

Chase reported an after-tax loss of $1.11bn or $12.49 a share for the quarter. Excluding the special provisions, Chase said the quarter's net income would have been $151m or $1.45.

A year ago the company made $283m or $3.09 in the third quarter. However, this included $103m of one-time items, suggesting that underlying income declined in the latest quarter by 16 per cent.

The quarter's special provisions included a $1.15bn addition to the reserve for Third World loan losses, a $126m charge for real estate losses in Arizona, and a $38m charge for restructuring the securities business.

The decline in underlying income was mainly due to a sharp rise in operating expenses which, as reported, grew by 24 per cent to $1.02bn. Part of this increase was due to one-time items included in the quarter's special charges.

Excluding these effects, operating expenses grew by 8 per cent in the quarter.

Net interest income, excluding provisions, increased by 6 per cent to $738m. Non-interest income fell by 14 per cent to $514m, but the apparent decline was due entirely to a one-time pensions gain of $130m recorded last year.

Among the non-interest income items, fees and commissions grew by 14 per cent to $551m, foreign exchange trading fell 16 per cent to $53m, trading account income increased by 53 per cent to $54m and investment security sales produced a gain of $12m, compared with a loss of $300,000.

Advanced Micro rises as sales slip

By Louise Kehoe in San Francisco

ADVANCED Micro Devices, the US semiconductor manufacturer, has increased third-quarter profits in spite of a sales decline. The group said demand for its core business products remained strong in the face of a general slowdown in US semiconductor sales.

Net profits advanced to $12.1m or 12 cents per share, from $7.2m or 6 cents in the corresponding period last year. Revenues of $275m were down by just under 4 per cent, from $285m.

For the nine-month period, the group reported a net profit of $34.2m or 33 cents on sales of $819.4m. Net income for the same period a year ago was $53.4m or 56 cents on sales of $877.8m.

● The Semiconductor Industry Association has published industry sales and order data for September, showing a continuing decline in orders but strong sales.

The industry's closely-watched ratio of sales to orders declined to 0.90, from 0.94 in August. The ratio indicates that for every $100 worth of products shipped, manufacturers received $90 worth of new orders.

Mead posts sharp fall to $69.7m

MEAD, the US paper and packaging group, posted a sharp fall in third-quarter earnings, with net profit tumbling to $69.7m from $170.5m last time, Our Financial Staff writes.

Per share earnings slid to $1.06 from $2.56 and group sales fell to $1.2bn against $1.17bn.

Mr Burnell Roberts, chairman, said year-to-year comparisons were made difficult by divestitures and acquisitions during the past two years. These include the sale of a big pulp mill and the purchase of a legal publishing company.

At nine months, net earnings dropped to $184.5m from $309.3m, pulling per share earnings down to $2.83 from $4.69. Sales increased to $3.53bn from $3.42bn.

The latest quarterly and nine-month periods include a non-recurring gain of $15.5m or 23 cents from the sale of Mead Release Products, while the year-ago periods include a gain of $100.9m or $1.50 from the sale of the company's 50 per cent stake in Brunswick Pulp and Paper.

Domtar to axe 500 as US prices weaken

By Robert Gibbens in Montreal

DOMTAR, the big Canadian pulp and paper, packaging and building materials group, is axing 500 staff jobs at its Montreal headquarters and various subsidiaries.

Many corporate services will be eliminated, all subsidiaries will report directly to Mr James Smith, president and chief executive, and the chief operating officer's position has been eliminated.

Domtar, which employs 16,000 staff, is selling its chemicals operation for an estimated C$225m (US$192.3m) to concentrate on its core interests.

First-half earnings were C$51m or 52 cents a share, down 16 per cent, on sales ahead 5 per cent at C$1.36bn. In 1988 Domtar earned C$111m, or $1.15, on sales of C$2.7bn. Analysts expect 1989 earnings of about 80 cents.

With the rest of the pulp and paper industry, the company faces discounting of up to 20 per cent in fine papers and newsprint in the key US market.

It is seeking a US partner to help its packaging businesses compete under the free-trade agreement. But the main problem has been a disastrous drop in gypsum wallboard prices, following a slowdown in construction due to high interest rates. Domtar is one of the top four wallboard producers in North America.

Other factors include higher interest expense and the stronger Canadian dollar. The company has sunk nearly C$1bn into a new fine paper mill.

Domtar is 44 per cent owned by the Québec Government and has been a privatisation candidate for three years. But the Government lost an opportunity last year when Mr Paul Desmarais, the Montreal financier, wanted to merge it with his Consolidated-Bathurst. Terms could not be agreed.

The group's rationalisation is a reflection of cuts throughout the Canadian pulp and paper industry. It also has heavy capital spending ahead and to meet environmental and quality demands it may have to spend C$500m to rebuild a pulping unit and replace two older machines.

Record profit at Westinghouse

WESTINGHOUSE Electric, the US electrical equipment maker, has posted record third-quarter results, with net income of $334.4m or $1.60 a share on $3.13bn in revenues. Last year it recorded a net $319.3m or $1.51 on sales of $3.06bn, Reuter reports.

At the nine-month stage, the company lifted net earnings to $651.7m or $4.46 on $9.19bn in revenues against $615.1m or $4.23 on $8.85bn.

The group has been carrying out a restructuring over the past few years.

Further snags delay IEL buy-out

By Chris Sherwell in Sydney

FURTHER SNAGS over funding have again delayed the A$1.9bn (US$1.5bn) management-led bid to take over Industrial Equity (IEL), the Australian arm of Sir Ron Brierley's New Zealand-based business empire.

A formal offer from Corama, the takeover vehicle linking the textile magnate Mr Abe Goldberg and IEL executives Mr Rod Price and Mr Bill Loewenthal, will not now come before late November – more than four months after it was first announced.

The fresh delay was revealed by Sir Ron, who is chairman of IEL, in a letter to shareholders. He said the uncertainty over the proposed bid was "a matter entirely beyond the control of the IEL board," and added that IEL was in the meantime operating normally.

According to local reports, one of the obstacles has concerned fees for the banks providing the funding for the deal. In another development Mr Goldberg is said to have put his newly-acquired Brick & Pipe Industries back on the market in an endeavour to raise more funding for the deal.

Corama, which is 75 per cent owned by Mr Goldberg and 25 per cent by Mr Price and Mr Loewenthal, currently has just under 20 per cent of IEL, purchased from Sir Ron's Brierley Investments in July for A$2.40 per share.

At the time, Corama contracted to buy Brierley Investments' remaining 32 per cent stake in IEL and another 20 per cent held by the food giant Goodman Fielder Wattie – both at A$2.40 per share. These plans have since been overtaken by Corama's decision in August to launch a full bid at the same price.

A key figure in the IEL saga is the entrepreneur Mr John Spalvins, head of the Adelaide Steamship group, who has built up a strategic stake in the company of 15 to 16 per cent at an estimated entry price of around A$2 per share.

While he would reap a tidy profit from a successful takeover by Corama, he is also thought to be interested in IEL's principal asset, the Woolworth's retail chain in Australia, which would complement its existing David Jones department store group.

Because of the role of IEL directors, Mr Spalvins has previously complained about the way the Corama bid has evolved, and was quoted yesterday as saying Adsteam had not yet decided its next step.

Private investors rush to Air New Zealand

SHARES IN Air New Zealand offered to private investors in its flotation have been oversubscribed by almost 90 per cent, according to Mr Bob Matthew, its chairman, Reuter reports from Wellington.

As a result, some shares earmarked for institutions will instead be sold to private investors, he added. Mr Matthew said the public applied for 26.5m shares against an allocation of 14m.

"Given this level of oversubscription, 5m shares will be transferred from institutional investors to the public pool," he said.

The privatised airline is controlled by a group of investors led by Brierley Investments (BIL).

Mr Matthew gave no idea of institutional response to the offering, which closed on October 6. Brokers said the allocation to institutions, originally 35m shares, had also been oversubscribed. The remaining 21m shares on offer have been allocated to brokers.

The transfer of allocations to private investors from institutions was made under a clause in the offer documents.

The government sold Air New Zealand in April to the consortium led by BIL for NZ$660m (US$). BIL took 65 per cent on condition that it would sell a 30 per cent stake to the New Zealand public and institutions, leaving it with 35 per cent.

Despite the transfer, the public pool would still be oversubscribed by around 7m shares.

Kaufhof to buy 50% of Vobis group

By Andrew Fisher in Frankfurt

KAUFHOF, the big West German retail group, is expanding further outside its traditional department store activities by taking a 50 per cent stake in Vobis, an Aachen-based computer, sales, assembly, and maintenance company.

Although Kaufhof claims to have the biggest turnover in computers among the German store groups, this is the first time it has taken a stake in a specialist computer company.

Vobis has a turnover of DM250m ($132m) and employs 190 people at 35 branches.

Kaufhof, based in Cologne, has been active in building up its non-store activities in the past few years, moving into consumer electronics, fashion, and shoe retailing.

In August it announced its intention of taking a majority stake in Oppermann Versand, a large mail order supplier of promotional gifts, in a deal worth around DM300m. The company gave no price for the Vobis stake, which depends on cartel office approval.

Sanwa to buy 15% stake in small Kuala Lumpur bank

By Lim Siong Hoon in Kuala Lumpur

SANWA BANK, Japan's fifth largest commercial bank in asset size, is to buy a 15 per cent equity stake in Bank of Commerce, a small commercial bank in Kuala Lumpur.

The deal signals the first opening by domestic commercial banks to a new flow of foreign investments and banking partnerships.

Malaysia's Bank Negara, the central bank, is starting to encourage such deals in a reorganisation of its banking system to prop up the capital market and strengthen the banks' capital structures.

At the present market rates, Sanwa is offering about 34m ringgit (US$13m) for the almost 11m shares of Commerce's largest shareholder, the Fleet Group.

Fleet is a diversified company centred on publishing. Its direct shareholding will fall to 44 per cent as a result. New Straits Times Press, its newspaper subsidiary, also has a 20 per cent equity share in the bank.

Bank of Commerce, with group assets of 1.8bn ringgit and capitalised at 227m ringgit, is now traded at around 3 ringgit a share.

When completed, the partnership will be Japan's first entry into a domestic commercial bank and offering advantages previously unavailable to Sanwa, said Mr Tadahiko Kanayama, Sanwa's representative in Malaysia.

Because commercial licences are no longer awarded, foreign banks operate offices which cannot collect deposits and carry out foreign exchange transactions. Owning a share of a domestic bank provides the only practical way out.

"There are many Japanese investors in Malaysia," Mr Kanayama said yesterday. "If we can take care of them well, we will have more business in Japan."

Sanwa already has a 15-year partnership with a Commerce subsidiary, Commerce International Merchant Bankers, where the Japanese have a 16 per cent share. But that partnership has limitations. Unlike commercial banks, merchant bankers cannot operate deposit accounts and supply a wide range of credit packages.

The solution, now available to the domestic merchant bankers, is to buy into commercial banks. This opportunity is opened particularly at the branches of foreign banks which now have to incorporate their businesses locally.

Arab-Malaysian Merchant Bank, which ranks as the largest of these banks and is establishing a holding company, is thinking of such a move. The Malaysian central bank wants such partnerships, either in the commercial or merchant banks, restricted to just one foreign institution in a single bank and no more.

Sanwa, as with all other foreign institutions buying into a domestic bank, is limited to a 20 per cent equity share. Mr Mohamed Nor Yusof, Bank of Commerce chief executive, sees the deal as one between a willing seller and buyer.

There is, he said, the prospect of Bank of Commerce riding on Sanwa's overseas network. A third of Bank of Commerce's 6m ringgit after-tax profit last year (11m ringgit for the group) is attributed to trade financing.

INTERNATIONAL APPOINTMENTS

Leadership change at Procter and Gamble

PROCTER and Gamble, the US consumer products group, announced that Mr John Smale, chairman and chief executive, plans to relinquish those posts from January 2.

Mr Smale, 62, told the company's annual meeting that he will remain an employee of Procter and Gamble and will continue to serve as a director and as chairman of the executive committee of the board.

He said he was stepping down to fulfil a personal goal. "The time has come to spend more time with my family," he said.

The company said Mr Edwin Artzt, 59, vice chairman of the board and president of Procter and Gamble International since 1984, has been elected chairman and chief executive of Procter and Gamble, effective January 2. The appointment took some analysts by surprise: they had expected Mr John Pepper, 51, Procter's president since 1986, to take over the reins.

Mr Pepper will assume responsibility for international business, while relinquishing responsibility for all US business, except the Norwich Division, its pharmaceuticals unit.

Mr Jay Freedman, Kidder Peabody analyst, said Mr Artzt, whose international division was "a star performer," was probably being rewarded for his contributions to the company.

He added that the arrangements were "reasonably logical", and that Mr Pepper's reassignment to the international division should allow him to be well-versed in the area if he should take over as chairman later on.

New management board chairman at Krupp Stahl

THE SUPERVISORY board of Krupp Stahl, the large West German steelmaker, named Mr Juergen Harnisch as management board chairman from October 26, succeeding Mr Gerhard Cromme.

Mr Harnisch is currently chairman of MAN AG's truck unit, MAN Nutzfahrzeuge, in Munich. Mr Cromme has already taken a new post as management board chairman of steel and engineering group Fried. Krupp, parent company of Krupp Stahl.

* * *

GIROZENTRALE VIENNA, the second biggest bank in Austria, announced the appointment of Mr Hans Haumer, who is chairman of Die Erste Osterr. Spar-Casse-Bank and president of the Austrian Savings Banks, as chairman of the Girozentrale managing board, effective from the beginning of this month.

Mr Haumer succeeds Mr Karl Pale, Girozentrale chairman for 14 years and who, the company said, is leaving the financing scenario of the country. Mr Pale is considered to be one of the most experienced and distinguished representatives of the Austrian banking community.

* * *

NATIONAL Australia Bank, one of Australia's leading banks, has named Mr John Windeler general manager, treasury, responsible for its worldwide treasury operations.

He replaces Mr John Astbury, who was recently appointed chief general manager, institutional banking.

Mr Windeler previously held a series of senior posts at Irving Trust in New York and London. From 1984, he was executive vice president, global securities trading and sales.

* * *

SOFTWARE development and business consulting concern Cibar Software Technologies, which was founded in the US in 1969, appointed Mr Michael Glynos managing director of Cibar Software Technologies – Europe, serving Europe and the Middle East and with headquarters in Athens.

Mr Glynos has much experience in the banking field throughout Europe and the US, and lately has been Digital UK's European marketing manager in London responsible for international banking.

Cibar – Europe provides software products to solve the automation and productivity needs of banks and other financial services organisations.

* * *

DREXEL BURNHAM Lambert, the US investment house, appointed three account executives to its US equities team who are to be based at the company's Paris office.

Named as senior account executives are Mr Claude L'Heveder, formerly senior fund manager at Bank Indosuez, and Mr Guy Zarka, previously with Dean Witter Reynolds in Paris as sales manager in US equities. Mr Charles Praat, also from Dean Witter's Paris unit, has become account executive at Drexel.

INTERNATIONAL CAPITAL MARKETS

Irish seek piece of financial action

Ireland aims to build its banking business, writes David Lascelles

The cranes are at work on the banks of the Liffey in Dublin, constructing the Financial Services Centre – Ireland's attempt to win some action in the international financial services market.

The project, which has the strong personal backing of Mr Charles Haughey, the Prime Minister, offers a 10 per cent tax rate to the year 2000 to anyone conducting offshore financial business from the centre. So far, 600,000 sq ft have been contracted for, with such companies as Chase Manhattan, Daiwa Securities, Sumitomo and Bayerische Vereinsbank among the takers.

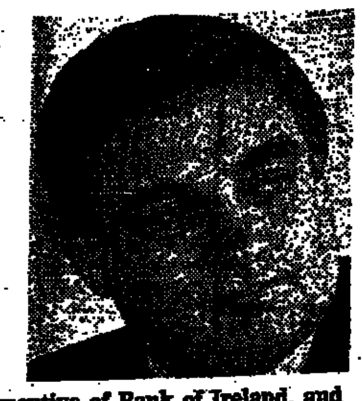
Dublin needs to channel more business in its direction: as one of the European Community's more remote outposts, it is not a natural destination for the EC's bankers. And the domestic banking market is so heavily dominated by the country's Big Two – Allied Irish Banks and Bank of Ireland – that there is little scope for foreign entrants.

The two main ones are Ulster Bank, owned by NatWest, and National Irish Bank, which is being sharpened up by its new owners, the National Australia Bank.

The expectation is that the centre will attract administrative and back office business rather than that at the sharp end of the market, with a net gain of some 3,000 jobs. Mr Dermot Desmond, a stockbroker who was one of the originators of the idea, sees it competing more with such centres as Luxembourg than London.

"Ireland has a well-trained workforce available for it," he says.

The big banks are doing their bit to help the centre on its way. AIB bought outright the first building to be completed. Mr Mark Hely Hutchinson, Bank of Ireland's chief executive, says he first saw it as a national prestige project, but now finds it offering considerable business opportunities. His own bank, for example, expects to provide back-up services to the foreign entrants.



Mark Hely Hutchinson, chief executive of Bank of Ireland, and Peter Sutherland, chairman of Allied Irish Banks

The lack of scope for growth in the local market is a serious constraint even for the two big banks, despite the strong economic growth that Ireland is enjoying. Although both of them are trying to squeeze more out of the domestic market by cutting costs and diversifying into new lines of business such as insurance, foreign expansion has been the key for some time. Both banks now have half or more of their assets outside Ireland, mainly in the UK and the US.

Mr Peter Sutherland, the former EC Commissioner for Competition who is now chairman of AIB, describes his bank as "an international bank based in Ireland" rather than an Irish bank.

AIB owns First Maryland Bank, one of the few successful foreign acquisitions in the US retail banking market. But the main challenge lies in Europe, particularly the UK, where AIB has strong ambitions and feels most familiar.

Mr Sutherland says he would like to buy a British building society, if one became available. "But we know there are great difficulties. We won't embark on it lightly."

He doubts that AIB will seek an alliance with another bank in the EC to tackle the single market jointly. During his time in Brussels he talked to many bankers and formed the view that such alliances do not work. "I have doubts about cross-shareholdings," he says. "The best response to 1992 is to show that we are a dynamic bank."

There is a similar strategy at the Bank of Ireland, where Mr Hely Hutchinson describes local competition as "violent." The bank has the aim of becoming a "one-stop shop" for financial services in Ireland. It has become a leader in mortgage lending and life insurance, and has a 49 per cent stake in J & E Davy, the largest Irish stockbroker. But the principal thrust is in business abroad.

The bank recently acquired First New Hampshire bank – an ill-timed acquisition, as it turns out, because it ran smack into a slump in the New England property market. Although other regional banks, including the leader Bank of Boston, are reporting losses, Mr Hely Hutchinson says FNH is better managed and "is not in desperate straits."

Generally, Bank of Ireland is well capitalised and "is on the acquisition trail," says Mr Hely Hutchinson. Like AIB, its sights are on the branch banking market in the UK, where it wants to add to its existing network.

With both Irish banks pursuing very similar strategies, are they not just copying each other and, in the end, queering their own pitches? "We're constantly watching each other over the parapet, which creates a tension which is good," says Mr Sutherland. "But it may also give us an exclusivist focus, which is bad."

One point on which both banks agree is the need to abolish the levy which the Government imposes on their after-tax profits. This costs each about I£15m ($21m) a year, and they argue that such a levy will leave them badly handicapped after 1992. But since the levy was introduced to compensate for government revenue lost to various kinds of tax-privileged lending, abolition may also call for wider changes in the tax structure. The irony of the Financial Services Centre is that it will introduce new tax privileges probably at the same time that the levy is removed.

THE IRISH BANKS COMPARED

	Allied Irish Banks	Bank of Ireland
Pre-tax profits (I£m)*	158	160
Assets (I£m)†	14,700	11,100
Number of outlets	350	398
1988 market share (%)		
Advances	45	46
Deposits	43	47

*Year to March 31, 1989
†At March 31, 1989
Source: Shearson Lehman Hutton

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on October 11

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alberta 9¾ 95	600	103⅝	103¾	0	+1	8.60
Austria 9¾ 93	140	102½	102⅝	–0¼	+0⅛	8.76
[illegible]						

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅜ 91	80	100⅛	100½	–0¼	–0¼	5.80
Canada 5⅞ 93	80	99⅞	100⅛	–0⅛	–0⅛	5.62
[illegible]						

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]						

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]						

* No information available-previous day's price
† Only one market maker supplied a price

[illegible]

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DFC's fall 'highlights confusion'

By Rachel Johnson

THE COLLAPSE of the investment bank DFC New Zealand, which was privatised last year, has uncovered the confusion investors face in their dealings with government-owned or recently privatised companies, said Moody's Investors Services, the credit-rating agency, in a report yesterday.

The report emphasises that the DFC collapse is only the latest in a series of "loss events" to have sapped confidence over the past two years, in which investors' assumptions of government support proved incorrect.

Moody's points to the default of 1987 Kongsberg Vaapenfabrik, a defence contractor. This default revealed that "Governments and investors could, at the same time, have sharply different perceptions of how much implicit governmental support was available without a formal guarantee on borrowings."

The New Zealand Government is standing by its decision not to rescue the bank, despite accusations from overseas investors that they were misled over the bank's financial status. Meanwhile, the rating agency Standard and Poor's says it had thought that DFC's major shareholder, the National Provident Fund, would provide more financial support in a crisis.

Amid the dispute over the affair, other companies are complaining that the bank's unsupported collapse will adversely affect future New Zealand debt issues.

Mr Rod Deane, chief executive of the Electricity Corp of NZ, said the confusion surrounding DFC would make overseas investors wary of future issues by government bodies.

He said that overseas investors "felt there was a more supportive structure in place than in fact was the case."

The state-owned electricity corporation plans to borrow NZ$2.5bn (US$1.47bn) in the country's largest corporate debt programme. The company's paper is not guaranteed, although other state-owned enterprises have guarantees.

The statutory managers of DFC, effectively the bank's receivers, are expected to release a preliminary statement on the bank's collapse this week.

● Yesterday Moody's announced a possible downgrade for the Bank of New Zealand, the country's largest commercial bank, which is 51per cent-owned by the Government.

It has placed its rating of Prime 1 for the Bank of New Zealand's short-term deposit obligations and for commercial paper under review.

Its review will focus on the "predictability" of future capital support in light of recent bankruptcies and general illiquidity in the New Zealand property market.

INTERNATIONAL CAPITAL MARKETS

Issuers active as borrowers see higher interest rates

By Andrew Freeman

NEW ISSUE activity expanded sharply on the Eurobond market yesterday as several borrowers showed they were content to lock in fixed funds as they expected world interest rates to rise further. Deals for IBM and GE Capital set the corporate market alight, rekindling the debate on syndication techniques.

INTERNATIONAL BONDS

Late on Tuesday, Goldman Sachs won the mandate for a $400m three-year deal for IBM Credit. The bonds were launched yesterday with an 8⅝ per cent coupon and were priced at 101.30 to yield 37½ basis points over the equivalent US Treasury. Proceeds were unswapped.

A Goldman official said the syndication along traditional lines had been extremely smooth. A group of five co-lead managers and 23 co-managers was formed, with no bank declining its invitation.

Initially, the paper traded comfortably inside full underwriting fees of 1⅜, briefly reaching less 1¼ bid, before falling back to around less 1.32 bid. Late in the day, the price fell to less 1.35 bid as the Treasury market traded lower.

Dealers admitted that the pricing was in line with the secondary market, but several commented that secondary paper was trading at very tight spreads and that yesterday's deal left little on the table for co-managers. Goldman countered by saying that initial sales could have been made at less 1¼, a level at which all members of the syndicate made money.

Institutional demand was strong in the Far East and London, although European dealers reported slower interest.

Kidder Peabody launched its first fixed price re-offered Eurobond deal, a $150m 10-year unswapped issue for GE Capital (Canada). The bonds were re-offered at 99.60 to yield 58 basis points over Treasuries, following a 24-hour pre-marketing period. Full fees were 32½ basis points.

Kidder broke the small syndicate very soon after terms were fixed, to allow members of the small group a chance to control the issue as the Treasury market began to fall. The paper was trading at 99.62 bid, a tiny premium to the issue price.

Again, demand for the paper was predominantly from the Far East, with many London-based traders commenting that the terms looked tight.

Tuesday's jumbo Italy deal continued its strong performance, trading in line with the five-year Treasury and maintaining a spread of 42 basis points. Dealers said there was much less turnover as the market price moved below the issue price.

The dollar sector was also tapped by IBJ International with a $200m seven-year deal for Japan Development Bank, the latest in a string of Japanese government-guaranteed issues brought recently by IBJ.

The bonds were priced to yield 50 basis points over the when-issued Treasury and met a good reception. IBJ was quoting the paper at less 1¾ bid, after less 1.70 bid. Full underwriting fees were 1⅜ point.

IBJ said it was encouraged by the amount of new money looking for dollar assets and said there was less switching activity than expected. Proceeds were swapped into fixed-rate yen via a leg in floating-rate US dollars.

The first zero coupon Danish kroner deal since May was launched for Kredietbank by Privatbanken amid steady interest from Benelux and Danish investors. The bonds were trading on fees at less 1⅜ bid.

UBS Phillips & Drew brought a £100m floating-rate note issue for Town & Country Building Society. The notes yield 10 basis points over three-month Libor, and were trading on fees at 99.82 bid. The lead reported UK institutional sales, as well as off-shore interest based on hopes of a good short-term yield.

Hambros' A$50m three-year issue for National Australia Bank carried a fat 16½ per cent coupon to attract retail demand, and met surprisingly good interest in what has been a flat sector. Hambros was quoting the paper inside full fees at less 1½ bid.

In Germany yesterday, a tough session saw recent issues drop between 40 and 80 pfennigs as recently improved sentiment caved in under pressure from the US dollar.

The National Bank of Hungary DM200m 8 per cent issue was quoted by the lead manager at less 2.70 bid, down only 20 pfennigs. The deal was steady because several banks have already asset-swapped their paper and there is limited supply in the market.

The Raiffeisen Zentralbank Oesterreich DM150m deal with equity warrants was trading at 122¼ bid, down 5¾ points from Tuesday's indicated level. Traders blamed the fall in the underlying share price in Vienna, where the stock market was weak.

In Switzerland, Japanese equity-related deals were resilient in the face of the overnight fall in Tokyo. On the new issue front, a SFr300m convertible for Rohm was trading at a premium of 1¾ points to its par issue price, while a SFr40m deal for Kimisawa reached 104¾ bid.

On the straight secondary market, prices were easier as short-term interest rates nudged higher: some issues fell by up to ½ point.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
IBM Credit Corp.(a)◆	400	8⅝	101.30	1992	1⅜/⅞	Goldman Sachs Int.
Sumitomo Metal Mining●	300	(3⅞)	100	1993	2¼/1½	Daiwa Europe
Japan Development Bank(a)◆	200	8⅝	101⅜	1996	1⅞/1¼	IBJ Int.
GE Capital(Canada)(a)◆	150	8¾	99.60	1999	32½bp	Kidder Peabody
Nichias Corp.(c)●◆	100	3½	100	1993	2¼/1½	Yamaichi Int. (Europe)
AUSTRALIAN DOLLARS						
National Australia Bank(a)◆	50	16½	101¾	1992	1½/1	Hambros Bank
STERLING						
Town & Country B.Soc.(b)‡◆	100	10bp	100	1994	18/11bp	UBS Phillips & Drew
SWISS FRANCS						
Rohm Co.(f)★★§	300	¼	100	1995	1⅝	UBS
Kimisawa Co.(g)★★§	40	¼	100	1995	1⅝	SBC
DANISH KRONER						
Kredietbank Int.Finance(a)◆	300	Zero	75.95	1992	1⅛/⅞	Privatbanken
YEN						
Montreal Trustco(d)‡◆	8bn	-55bp	100.10	1994	20/10bp	LTCB Int.
Bergen Bank(e)◆	3.5bn	7	101⅝	1991	1⅝/1⅛	New Japan Secs.

★★Private placement. ●With equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) Non-callable. b) 10bp over 3-month Libor. Additional £25m on tap. c) Coupon cut by ½% from indication. d) 55bp under Japanese long term prime rate. e) Redemption linked to Nikkei stock index. f) Yield to put 3.441%. g) Yield to put 3.479%.

Credit ratings ratio 'worst since 1982 recession'

By Andrew Freeman

CREDIT RATINGS assigned to debts for US corporations were downgraded more than twice as often as they were upgraded during the third quarter of this year, according to a report by Moody's Investors Services, the US rating agency.

Mr John Lonski, senior economist at Moody's, said in the report: "The ratio of 2.2 downgrades per upgrade compares unfavourably with 1988." He said the figure was the worst since the 1982 recession (when downgrades outnumbered upgrades by 2.8 to one), and forecast a rise in corporate defaults.

The bare figures disguise the fact that speculative-grade corporations account for over half the downgrades so far this year.

Mr Lonski added that event risk appeared to be declining as leveraged and hostile takeovers went out of fashion. In 1989 so far, some $39.55bn of corporate debt has been affected by 60 special event downgrades, representing 29 per cent of all downgrades.

● The 10 UK water authorities due for privatisation in November have been given initial debt ratings by Moody's in a range between the upper-medium (A) and high grade (Aa) categories.

Ratings for each authority will be specified after a more detailed review of their debt offerings and operations. The range is based on a review of the water industry which concluded that each of the authorities should be financially strong for at least five years after flotation. Moody's cites the UK regulatory environment, the Government's debt write-offs and the formula on pricing as reasons for short-term financial stability.

Moody's adds that thereafter it expects greater credit differentiation between the authorities, and predicts that once the industry has achieved European Community standards there will be downward pressure on pricing. That pressure should reveal which authorities are most efficiently managed, and therefore, which will have premium credit ratings.

Treasuries dip as hopes of easing fade

By Janet Bush in New York and Rachel Johnson in London

US TREASURY bond prices edged lower yesterday as there continued to be no sign of easier monetary conditions.

GOVERNMENT BONDS

At midsession, the benchmark long bond was quoted ⅜ point lower for a yield of 8.03 per cent, while short-dated maturities were narrowly mixed.

The US Federal Reserve arranged a draining operation through five-day matched sales to replace the five-day matched sales announced last Friday, which expired yesterday. The Fed funds rate held steady throughout the morning session at 8¾ per cent.

The return of the yield on the long bond to above 8 per cent, having traded just below that figure earlier in the week, reflects disappointed expectations of a monetary easing.

Various comments by Mr Alan Greenspan, Fed chairman, in Moscow were interpreted by the financial markets as a signal that the Fed does not intend to give in to pressure from the Administration to ease rates.

However, there is still a distinct camp among bond market economists who believe that the financial markets took Mr Greenspan's comments out of context and that an easing is still in the pipeline.

The Fed has not signalled an easing through its open market operations, but its announcements of matched sales on Friday, Tuesday and yesterday fail to provide firm evidence that it is not easing, as the Fed has a large drain need during this period.

■ THE EVENT of the day on the Japanese government bond market was the raising of the discount rate by half a percentage point, from 3¼ to 3¾.

This depressed prices by about half a point on bonds, while lifting yields. The Benchmark No.111 opened to yield 5.39 per cent, and went as far as 5.50 before recovering slightly to close at 5.45.

The rise in the rate widened the spread between the discount rate and new issues from 1¾ percentage points to 2.5, creating some room for investors to manoeuvre. However, the rate rise did nothing to support the currency, so fears are now focused on the inevitability of another rise.

The December futures contract was the subject of fairly heavy trading of Y9.7bn. It opened and closed at around 104, although the rise sent its price down half a point in the afternoon.

■ GERMAN government bonds were marked up to 85 pfennigs lower at the day's fixings, due to the currency's weakness on the foreign exchanges.

This, in turn, sent the December futures contract lower, with record volumes of contracts trading hands. The price fell 10 pfennigs after a repurchase agreement drained DM19.2m from the market. Bunds eased another 15 to 25 pfennigs during the day.

■ THE UK government bond market had another "desultory" day in the absence of any clear economic strategy from the Chancellor of the Exchequer, Mr Nigel Lawson.

At the long end, gilts eased about ¼, while shorter-dated stocks closed unchanged on the day.

There was hope yesterday morning that sterling would strengthen, but its drop in the afternoon against the D-Mark confounded the optimistic.

"The market wants to hear some theme from Mr Lawson tomorrow, which knits all his policies together, and explains how monetary policy is being driven," said a trader.

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS	13.500	9/92	104-01	+2/32	11.83	11.77	11.08
	9.750	1/98	94-16	-3/32	10.76	10.76	10.32
	9.000	10/08	93-20	-4/32	9.74	9.65	9.40
US TREASURY *	8.000	8/99	99-23	-1/32	8.04	8.22	8.13
	8.125	8/19	101-05	-5/32	8.02	8.16	8.08
JAPAN No 111	4.600	6/98	94.9302	-0.675	5.48	5.28	5.35
No 2	5.700	3/07	104.5738	-0.578	5.20	5.12	5.16
GERMANY	6.750	6/99	97.9000	-0.450	7.05	7.01	6.89
FRANCE BTAN	8.000	7/94	95.1331	-0.539	9.29	9.15	8.71
OAT	8.125	5/99	95.3700	-0.610	8.84	8.83	8.45
CANADA *	9.500	10/98	98.4750	-0.500	9.59	9.73	9.49
NETHERLANDS	7.250	7/99	98.4200	-0.550	7.48	7.39	7.20
AUSTRALIA	12.000	7/99	90.9939	-0.247	13.69	13.65	13.05

London closing. *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

Tokai Bank shares begin trading on London SE

By David Barchard

DEALING IN the shares of Tokai Bank, the sixth-largest Japanese city bank, gets under way at the International Stock Exchange in London today, in the seventh listing of a Japanese bank in London this year.

Mr Ikuo Inagaki, the deputy president of Tokai, said yesterday that the listing was an important step in the international development of the bank. "We believe that the introduction will broaden our appeal to international investors and lead to new business opportunities through enhanced awareness of our expanding operations."

Tokai Bank is the world's eighth-largest bank, with assets of Y31,703bn ($221bn). It has 269 branches in Japan and 51 branches in 23 other countries. It has had a representative office in the UK since 1957. and a London branch for over 26 years. It also has a representative office in Birmingham.

Its headquarters are in Nagoya. The Toyota Motor company is a major shareholder with a 5 per cent stake.

The bank's entry into the London Stock Exchange is part of a general policy of broadening its European operations. It intends to apply for listings on the stock exchanges of Paris, Basle, Zurich, and Geneva later this year.

Tokai is the 20th Japanese company to receive a listing in London. Japanese companies now account for £272.5bn ($425.1bn) of the total market capitalisation of overseas listed companies of £1,272.4bn.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS	Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Tue Oct 10 Index No.	Mon Oct 9 Index No.	Fri Oct 6 Index No.	Year ago (approx) Index No.
1-71 [illegible]										
81 Mining Finance (1)	680.05	+0.2	11.08	3.96	10.22	22.25	678.77	686.47	691.60	562.98
91 Overseas Traders (8)	1333.64	-0.7	10.37	5.98	11.06	43.67	1343.47	1367.02	1394.99	1311.74
99 ALL-SHARE INDEX (698)	1118.61	-0.2	–	4.40	–	30.52	1120.83	1136.63	1153.22	943.53

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Oct 10	Oct 9	Oct 6	Oct 5	Oct 4	Year ago
FT-SE 100 SHARE INDEX‡	2218.8	......	2232.5	2213.3	2218.8	2247.0	2277.5	2281.6	2312.1	1814.3

FIXED INTEREST

PRICE INDICES	Wed Oct 11	Day's change %	Tue Oct 10	xd adj. today	xd adj. 1989 to date
British Government					
1 Up to 5 years	115.87	+0.04	115.83	–	9.71
2 5-15 years	129.59	-0.17	129.96	0.15	10.34
3 Over 15 years	138.35	-0.31	138.78	–	12.00
4 Irredeemables	161.36	-0.07	161.46	–	8.83
5 All stocks	127.57	-0.12	127.81	0.08	10.44
Index-Linked					
6 Up to 5 years	136.98	-0.05	137.06	–	2.79
7 Over 5 years	135.70	-0.14	135.89	–	2.89
8 All stocks	135.68	-0.14	135.86	–	2.86
9 Debentures & Loans	109.08	-0.52	109.65	–	8.26
10 Preference	87.65	......	87.65	–	4.71

AVERAGE GROSS REDEMPTION YIELDS		Wed Oct 11	Tue Oct 10	Year ago (approx.)
British Government				
1 Low Coupons	5 years	10.48	10.45	9.59
2	15 years	9.73	9.71	9.24
3	25 years	9.57	9.54	8.96
4 Medium Coupons	5 years	11.23	11.24	9.99
5	15 years	10.12	10.07	9.46
6	25 years	9.71	9.67	9.13
7 High Coupons	5 years	11.36	11.35	10.09
8	15 years	10.34	10.29	9.62
9	25 years	9.87	9.83	9.22
10 Irredeemables	†	9.61	9.60	8.94
Index-Linked				
11 Inflation rate 5%	5yrs.	3.90	3.87	3.17
12 Inflation rate 5%	Over 5 yrs.	3.71	3.69	3.82
13 Inflation rate 10%	5 yrs.	3.11	3.08	2.11
14 Inflation rate 10%	Over 5 yrs.	3.54	3.53	3.66
15 Debs & Loans	5 years	13.37	13.34	11.79
16	15 years	12.43	12.36	11.13
17	25 years	11.78	11.70	10.75
18 Preference	†	10.54	10.54	10.19

‡Opening index 2223.5; 10 am 2230.7; 11 am 2220.2; Noon 2217.0; 1 pm 2218.8; 2 pm 2222.9; 3 pm 2221.3; 3.30 pm 2217.9; 4 pm 2215.4 (a) 9.24am (b) 3.44pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.
DEBENTURE CONSTITUENT CHANGE: Town Centre Securities 10½% 2021 has been inserted.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	17	73	14
Corporations, Dominion and Foreign Bonds	1	20	20
Industrials	205	940	451
Financial and Properties	90	334	248
Oils	39	18	37
Plantations	1	1	9
Mines	38	44	91
Others	92	83	85
Totals	483	1,513	955

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1989 High	1989 Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
120	F.P.	3/11	135	123	Birse Group 10p	126	-1	14.25	2.3	4.5	9.7
§100	F.P.	-	126	108	§Boxmore Intl. 10p	116	-2	u5.2	1.9	6.0	11.2
§74	F.P.	-	82	74	§Brandon Hire 10p	76		u3.33	1.6	5.8	11.3
§110	F.P.	-	119	110	§Cooper Clarke Group 10p	110	-2	a4.5	1.9	5.5	8.9
††	F.P.	-	81	70	*DSC Hldgs.	73xr		-	-	-	-
[illegible]											

RIGHTS OFFERS

Issue Price	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price	+ or -
[illegible]							

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price £	+ or -
[illegible]							

TRADITIONAL OPTIONS

● First Dealings Oct 9
● Last Dealings Oct 20
● Last Declarations Jan 11
● For settlement Jan 22

Calls in All Colloids, Hymas, J. Bibby, Medirace, McCarthy & Stone, Jaguar, Premier Cons, RegentCrest, Ryan Hotels. Put: Boots P/C Amstrad.

For rate indications see end of London Share Service

LONDON TRADED OPTIONS

THE OPTIONS market was set alight yesterday, with particularly busy trading in the FT-SE 100 index option.

Nervousness about the likely direction of the stock market after the recent sharp falls made institutions appear reluctant to commit themselves heavily to the market.

Dealers said the rise in interest rates and the weakness in sterling has cast a dark shadow over the stock and options market and this has led to some apprehension before Mr Nigel Lawson, the Chancellor, makes his speech at the Conservative Party conference later today.

However, this did not deter options brokers, who were active yesterday, particularly in the FT-SE contract. The FT-SE traded 18,903 contracts, more than double Tuesday's turnover. The total was divided between 3,828 calls and 15,075 puts. The busiest series was the October 2,250 put, which traded 2,246 contracts.

Total turnover yesterday was 57,278 contracts, the heaviest day's trading in two weeks. The total was divided between 22,193 calls and 35,085 puts.

Dealers said that, although there was brisk two-way business, activity tilted towards buying of puts, reflecting bearish sentiment.

The FT-SE activity was focused around the October 2,150 and 2,300 put spread; institutional and broker buying of the November 2,200 put; and brokers selling the 2,150 and 2,300 strangle, suggesting they expect the FT-SE index to remain between those levels.

Of the individual stock options, British Gas was the busiest, trading 4,599 contracts. This was divided between 3,973 puts and 626 calls, with the January 145 put the busiest series. It traded 1,175 contracts. However, dealers said the low cost of British Steel premiums meant the value of the day's turnover was below less actively traded options.

Elsewhere, the gyrations in Jaguar's share price created new options business. It traded 3,554 contracts, of which 2,303 were calls and 1,251 were puts.

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr
Allid Lyons (*491)	460	36	55	74	2	12	16
	500	10	32	50	16	28	33
Brit. Airways (*195)	180	16	23	30	½	5	7
	200	3	11	17	7½	14	16
	220	1	4	9	26	27	29
Brit. Com (*131)	130	8	19	24	5	10	12
	140	3½	15	19	13	17	18
	160	1	9	12	33	33	33
[illegible]							

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr
Trafalgar (*336)	317	23	32	–	1	9	–
	330	–	–	35	–	–	18
	347	4	15	–	13	25	–
Utd.Biscuits (*351)	330	26	43	52	2½	9	12
	360	7	25	34	13	21	26
	390	3	13	22	41	42	44
Unilever (*649)	600	53	74	92	2	8	13
	650	12	39	57	13	24	28
[illegible]							

Option		Calls Nov	Calls Jan	Calls Mar	Puts Nov	Puts Jan	Puts Mar
Abbey Nat. (*146)	140	9½	15	18	2½	4	5
	160	2½	5	7	15	15	16
Ferranti (*58)	50	11	13	16	1½	3½	5
	60	5	7	10	6	8	9

Option		Calls Nov	Calls Jan	Calls Apr	Puts Nov	Puts Jan	Puts Apr
ASDA Grp. (*158)	140	24	–	–	4	–	–
	160	11	19	24	13	14	17
[illegible]							

UK COMPANY NEWS

It took four years and cost £32m to be wise after the event

Dalgety sells Gill & Duffus for £87m

By Andrew Hill

DALGETY, the international foods and agribusiness company, has finally disposed of its ill-starred commodities business, Gill & Duffus, for £87.4m – some £32m less than its purchase price four years ago.

Dalgety's shares rose 4p to 413p on yesterday's news, which was heralded at last month's announcement of Dalgety's 1988-89 results.

Dalgety bought Gill for £120m in 1985, to the irritation of City observers. The commodity broker was hit by the collapse in the tin market almost immediately and has rarely lived up to expectations since.

Mr Maurice Warren, Dalgety's managing director, said yesterday: "Trading has been very difficult. It was quite important that we got out of that cyclical business and we *are selling at a time when the* commodity markets have been very poor indeed."

Gill's cocoa, sugar and coffee trading operations are to be sold at a discount to the business's net asset value of £99.1m and Dalgety may have to write off a further £5m of miscellaneous assets.

However, the disposals will also reduce Dalgety's gearing from about 63 per cent at the end of June, to around 26 per cent. That excludes a temporary $300m working capital facility which *Dalgety is making* available to the buyers of Gill's sugar division while they set up alternative credit facilities.

Mr Warren said the disposals would enable Dalgety to concentrate on its food and agribusiness divisions, managing well-known brand names such as Golden Wonder crisps, Winalot pet food and Homepride flour.

The group is currently the focus of speculation about a possible bid from Australian entrepreneur Mr Robert Holmes à Court and France's Elf Aquitaine, which together own just under 5 per cent of the company.

Gill's cocoa trading and processing operation will be bought by Basescheme, 49.9 *per cent of which is held by* venture capital group, Citicorp Capital Investors Europe.

The division's management will hold 25.2 per cent and the balance will belong to E D & F Man, a private sugar trader.

The Geneva-based sugar *trading arm is being bought by* a Japanese-led consortium consisting of quoted company Taiyo Gyogyo Kabushiki (40 per cent), the directors and *management (40 per cent), and* Dalton Trading Company.

Gill's Brazilian coffee trading business, Usicafe, has been bought by its management, and the Guatemalan arm of Usicafe is to be sold to an unspecified buyer for about £2m.

Gill made £9.7m before tax in the year to June 30 out of overall group profits of £110m before tax. Commodities make up 17 per cent of Dalgety's turnover of £4.76bn.

Tay Homes' jump to £8.33m lifts shares

By Andrew Taylor, Construction Correspondent

HIGHER THAN expected pre-tax profits at Tay Homes for the twelve months to June 30 boosted the share price of the Leeds-based builder yesterday and the stock closed up 7p at 104p.

The taxable result jumped by 62 per cent from £5.15m to £8.33m and turnover rose by 47 per cent from 35.42m to £52.17m. A recommended final dividend of 3p raised the total for the year by 50 per cent to 4p. Earnings per share increased by 61 per cent to 25.2p (15.75p).

The group has benefited from the resilience this year of housing markets in northern England, compared with the market in the south where sales are down by about half.

Mr Trevor Spencer, Tay's chairman, said the company had sold 795 homes in the year to the end of June, compared with 710 the previous year.

Prior to last week's rise in interest rates, the group had been expecting to build 870 homes, an increase of about 10 per cent, in the current year.

"We are well on target to achieve that figure despite a slight slowdown in sales in recent weeks," said Mr Spencer. "But it is very difficult to say what impact the rise in interest rates will have on demand in the north and in Scotland where we are strongest."

Its two main areas of operations, *based on Leeds and* Glasgow, accounted for 85 per cent of sales value in the year just ended.

"Sales reservations in the north of England and Scotland are currently at good levels, while our smaller developments in the south-west and midlands continues to be slow," said Mr Spencer.

The Yorkshire area in particular had benefited from a large increase in house prices. Halifax, Britain's biggest building society said yesterday that prices in Yorkshire and Humberside rose by 37 per cent in *the 12 months to the end of* September.

Tay said sales in Scotland had risen substantially, reflecting increased demand for home ownership. According to Halifax, price in Scotland rose by almost 20 per cent in the past 12 months.

GEC near to Matra space link

By David White, Defence Correspondent

GENERAL ELECTRIC Company of the UK is close to an agreement to merge its space interests with those of Matra, the French high-technology group, by setting up a joint company with annual sales of about £300m.

The companies are expected to announce the move next week. It is the first concrete evidence of the well-publicised ambitions of Mr Jean-Luc Lagardère, Matra chairman, to set up wide-ranging links with both GEC and Daimler-Benz, the West German motor and aerospace conglomerate. GEC and Daimler each have 4 per cent shareholdings in Matra, which was privatised in 1988.

Matra's board is due to take a preliminary step towards the merger on Monday, by approving the splitting-off of its Matra Espace satellite activities into a separate subsidiary.

Subject to final authorisation, this unit will be merged with Marconi Space Systems, one of the operating subsidiaries of GEC's defence arm GEC-Marconi. GEC and Matra would be the sole shareholders in the joint venture.

GEC, while taking a cautious line on Mr Lagardère's plans *for a strategic alliance, sees the* agreement as significantly strengthening its space business, turnover of which at about £85m a year is less than half Matra's.

The two companies are considered to have complementary strengths in the field rather than overlapping. Portsmouth-based Marconi Space Systems, which was made a separate subsidiary five years ago, focuses primarily on satellite communications and other satellite payloads and power sources. Its business includes communications payloads for the UK's Skynet series of military satellites.

Matra, which entered the space sector in the early 1960s, with a leading role in France's first satellite, is principally involved in space avionics, navigation systems, data management and space vehicles.

For GEC, the planned venture is intended to take it from being a major sub-contractor in space projects (in the latest Skynet 4 programme it is principal *sub-contractor to British* Aerospace) to the position of a strong prime contractor.

The venture would offer a full range of capabilities, including ground stations, components of launch vehicles, the satellite "bus" carrying the payload, the payload itself, navigation systems, and mobile antennas to receive the signals.

Matra sees the agreement as paving the way for a series of links, which would include share swaps between itself and the defence and aerospace arms of GEC and Daimler-Benz. In talks earlier this year it was suggested that this might involve the British and West German companies raising their stakes to 20 per cent, with Matra taking similar positions in GEC-Marconi and in Deutsche Aerospace, the new division of Daimler-Benz.

Franklin '10 years too late' in DRG bid

By Clare Pearson

"ROLAND FRANKLIN is probably ten years too late" in attempting a hostile break-up bid for DRG, the paper and packaging group, Mr Moger Woolley, chief executive, claimed yesterday.

Mr Woolley was speaking as DRG posted its defence document in response to the £697m cash offer launched by Mr Franklin's Bermuda-based Pembridge Investments.

The main aim of the document is to take issue with the view, described by Mr Franklin as a "conviction" in a letter to shareholders earlier this week, that DRG has the characteristics of a conglomerate and that its form of business structure has an inherent disadvantage for shareholders.

Sir John Milne, chairman, says: "The first assertion is wrong and the second wholly unsubstantiated. DRG is a well-founded group of focussed businesses with an impressive track record and excellent prospects."

"A key strength of DRG is that it is structured to enable its businesses to focus clearly on specific markets whilst *being able to draw from the* Group's broad technical expertise and resources," he says.

The group of international investors behind Pembridge are engaged in "a clear example of short-term profiteering" it is trying to "realise a large profit at your expense."

With Pembridge's bid pitched at 590p, against a closing price yesterday of 604p, there is no profits forecast.

But there is a promise to supply shareholders with details of expected profits from property disposals in support of earlier statements that these could average some £10m per annum over the next five years.

Property profits are likely to become central to the financial arguments during the bid. A large property profit helped boost interim pre-tax profits to £42.7m (£28.3m).

Through various charts showing DRG's financial performance measured by various ratios in the years 1980-1989, and a table showing acquisitions and disposals, the document seeks to demonstrate DRG's history of growth and restructuring.

A chart showing operating profit as a percentage of average capital employed (standing at 28 per cent in 1987 and 1988) is calculated on data including property values at original cost, rather than on a revalued basis.

DRG takes issue with what it says are "out-of-date" financial comparisons made by Pembridge.

Reedpack paves way for flotation

By Maggie Urry

REEDPACK, the paper, packaging and office supplies group, has appointed NM Rothschild, the merchant bank, to advise on its flotation. It has also appointed Cazenove as its stockbroker, and Goldman Sachs, the investment bank, to advise on international financial matters.

The group was formed by a £686.5m management buy-out from Reed International in the summer of 1988. At the time it planned to come to the stock market within three years.

Mr Peter Williams, chief executive, expects the group to be ready to float in 1990, but will wait until market conditions are attractive.

Reedpack is currently considering a joint project to build a new newsprint machine, which would cost around £200m in total.

Alan Harper

Hays valued at £393m after revision of launch price

By Clare Pearson

THE SHARP deterioration in the UK stock market has driven Hays, the business services group joining the main market through a big offer for sale, to launch its shares on significantly cheaper terms than it had recently envisaged.

Yesterday a price of 105p was announced for the shares, putting them, on a pro-forma basis, on a historic p/e of 12.2. Only last week, Mr Ronnie *Frost, chairman, (above) was* talking about a multiple of 13¼ to 14¼. There is no profits forecast.

The offer of 45.2 per cent of the enlarged share capital now raises a net £165.7m and values the whole company at £393m.

Mr Frost said yesterday: "At the end of the day the most important thing was to get the issue off successfully, which we have done. But the ratio is smaller than we've planned on and spoken about."

However, some analysts said yesterday the historic p/e range of 13 to 15 earlier indicated by J. Henry Schroder Wagg, the merchant bank handling the offer, had always looked somewhat ambitious.

The notional net dividend per share in respect of the year to end-June is 3p, giving a notional gross dividend yield of 3.8 per cent.

All but £4.7m of the net proceeds are going to the company *and will be used to repay* £121.6m of outstanding bank loans and, as to £39.4m, for the redemption of preference shares. Hays says it later plans to use its listing for expansion, including by acquisition within existing business areas.

The company, which is being classed as a conglomerate by the market, has interests spanning staff recruitment, office support services and specialised distribution. The three divisions contributed respectively 37, 18 and 45 per cent of operating profits of £52.7m in the year to end-June.

On the impact of a downturn in the UK economy, Mr Frost said yesterday: "Hays will be affected to a considerably lesser extent than many other public companies."

Within the divisions, Accountancy Personnel, which dominates the staff recruitment activities, is expected to remain the main contributor but Montrose, which supplies staff to the construction industry, is expected to grow at a faster rate.

Britdoc, a business mail service which forms one part of the commercial (office support) operation, is expected to "significant growth". In distribution, Hays is looking for growth from packaged products and speciality operating divisions in chemical distribution, and from other new specialised areas.

Hays emerged in its present form after a buy-out from the Kuwait Investment Office two years ago. Mr Frost was brought in as chief executive when he sold his farm produce business to the company in 1983.

Despite the downturn in the stock market, public interest in the offer has continued strong this week. By Monday night, more than 7,500 written applications for prospectuses had been sent in in response to advertisements.

Peter Black £13m health remedies buy

By Jane Fuller

PETER BLACK Holdings, the consumer goods manufacturer, is moving into over-the-counter health remedies through the purchase of English Grains for £12.8m.

English Grains, based in Staffordshire, makes such brands as Natracalm for stress relief and Red Kooga ginseng. It also produces unbranded pharmaceuticals for retail chains.

Mr Gordon Black, joint chairman of Peter Black, said the acquisition would expand the group's toiletries and cosmetics arm. This was its fastest growing division and represented about 20 per cent of turnover, which stood at £138m for the year to June 3.

"The market is growing for non-prescription remedies. It reflects customer taste for natural products and doctors are now recommending these for minor ailments," he said. The total UK market for such products is worth more than £550m a year.

English Grains was founded at the turn of the century when it started to concoct dietary supplements from yeast extract. It made a pre-tax profit of £1.3m on turnover of £9.8m in 1988, at the end of which it had net assets of £2.5m.

The purchase, from the Boardman-Weston family, is being financed by £8.25m of 10-year loan notes and £4.53m in ordinary shares issued at 120p each. Existing shareholders will be able to claw back the shares on a one-for-11.1 basis.

Mr Black said the acquisition would take gearing from 37 per cent to more than 50 per cent, but that 20 per cent of that gearing related to 10-year loan notes – "that is good because of the deferred payment." The equity arrangement would enable the Black family to retain its controlling 40 per cent.

Apart from toiletries and cosmetics, Peter Black has three other divisions: footwear (the largest), homeware, such as bedding, and furniture. Mr Black said ill effects from the squeeze on consumer spending were so far limited to furniture, which brought in only 5 per cent of sales.

About 60 per cent of the company's business was with Marks and Spencer, which he felt would be more resilient than other retailers. It was a possibility that the English Grains products would join the range supplied to M and S.

Ford Sellar disposals

Ford Sellar Morris Properties has sold three more properties for a total of more than £38m.

The sales bring the total proceeds of disposals since its acquisition of Brookmount in August to £70m.

Axa Midi gives funding details of possible Farmers purchase

By Nikki Tait

AXA MIDI Assurances, the French-based insurance company which plans to buy Farmers Group, the US insurance subsidiary of BAT Industries, from Sir James Goldsmith's Hoylake consortium if Hoylake makes a successful bid for BAT, has set out details of how it intends to finance the potential $4.5bn acquisition.

In new filings with the US state insurance commissioners who must approve any change of ownership at Farmers, Axa says that around $1bn would come from the "available resources of the group".

This would comprise $501m to be raised in the near future by Axa Midi and its parent companies, and $499m from the cash proceeds of the sale of securities by La Paternelle Risques Divers, a subsidiary of Axa and one of the main French property and casualty insurers within the group.

This latter sum would be part of a "reallocation" of La Paternelle's investment portfolio; the subsidiary, say the filings, has $1.3bn of net assets which can be invested freely as they do not cover policyholder reserves.

Over half of the $501m – $299m – would come from Midi, which is the immediate parent company of Axa, a mixture of cash in hand and the sale of available non-insurance investments.

A further $2.25bn tranche of the Farmers purchase price would be paid to Hoylake from the proceeds of long-term bank borrowing to be made to a subsidiary of Axa. This would take the form of a 10-year loan from a banking syndicate, and would be guaranteed by Axa. The French company stresses that this would not be guaranteed either directly or indirectly by Farmers itself.

The term loan would be repaid by the proceeds of ordinary dividends paid by Farmers. Axa says that dividends from Farmers would be about 75 per cent of the US company's net income.

This brought immediate criticism from BAT. The UK conglomerate claims that it currently takes only 35 per cent, and that the higher level of dividends envisaged by Axa would place heavier constraints on Farmers' future growth. "The funding plan," says BAT, "does nothing to alleviate worries about the leveraged nature of the Axa acquisition."

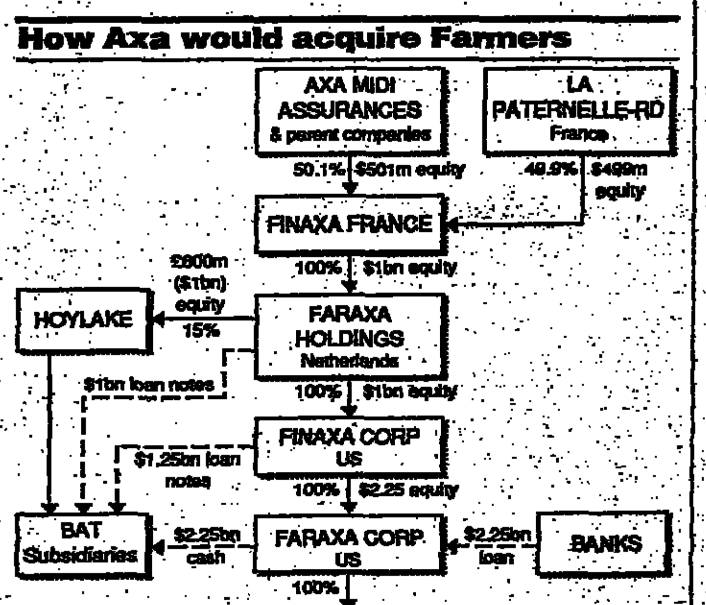
As expected, the remaining $2.25bn will be funded in the form of loan notes, to be issued by Axa subsidiaries to Hoylake. "The purpose of these notes is to allow Axa Midi to raise equity capital through divestments of its non-insurance assets in an orderly way," say the filings. These notes are due for repayment after two years, but can be partially deferred.

As expected, the documents also set out the revised intention of Hoylake to pass control of Farmers to Axa as soon as a bid for BAT goes unconditional. In this way, the consortium hopes that the insurance commissioners will need to consider only whether Axa is a suitable owner for Farmers.

If there is a short period between a Hoylake bid going unconditional and formal control of Farmers passing to Axa, the two parties are offering to enter an irrevocable undertaking which would bar Hoylake from having any control of the US insurance company. BAT said last night that it was still studying the fine detail of that agreement, but that it looked "complex".

The new filings from Hoylake itself make it clear that the leverage and ownership structure envisaged in a revised bid for BAT would "not be materially different" from that in its original offer – which has now lapsed. Hoylake also says that it is resoliciting investors to join its consortium: besides Sir James, Mr Jacob Rothschild and Mr Kerry Packer, Hoylake's previous offer had promises of backing from a formidable list of wealthy individuals and companies.

How Axa would acquire Farmers



DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Anglo-Eastern	int	1	-	1	-	-
Austin Reed	int	3	Dec 1	3	-	9
Billam (J)	int	1.64	Dec 8	1.64	-	4.04
Chillington Corp	int	3.25	Dec 29	3	-	8
Equity & General	int	0.5†	-	0.5	-	1.5
Forward Tech	int	0.6	-	0.6	-	1.8
Jerome (S)	int	2.8	-	2.6	-	7.6
Johnston Group	int	4	Dec 13	3	-	11.5
Lloyds Chemists	fin	1.56	Nov 27	1.2	2.21	1.7
Musterlin §	int	1.25	-	1	-	4
Pochin's	fin	20	-	15	29‡‡	19
Quadrant Group	int	1.6†	Jan 18	1.25	-	3.65
R&V Information§	int	0.308◆	Nov 17	-	-	-
REA Holdings	int	3	-	3	-	-
Sinclair (Wm)	int	3	-	3.25*	5.25	4.25*
Tay Homes	fin	4	Nov 24	1.975*	4	2.67*

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ◆Third market. ‡Directors forecast final of 3.75p making 5p (4p) total. ◆Dutch currency throughout. ‡‡Includes 5p special dividend.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Darby, El Oro Mining & Exploration, Exploration Co., Headlam, London Atlantic Investment Trust, Mikkin, Pergammon AGB, Wiltshire.

Finals- Lowndes Queensway, Manchester & London Investment Trust, Town Centre Securities.

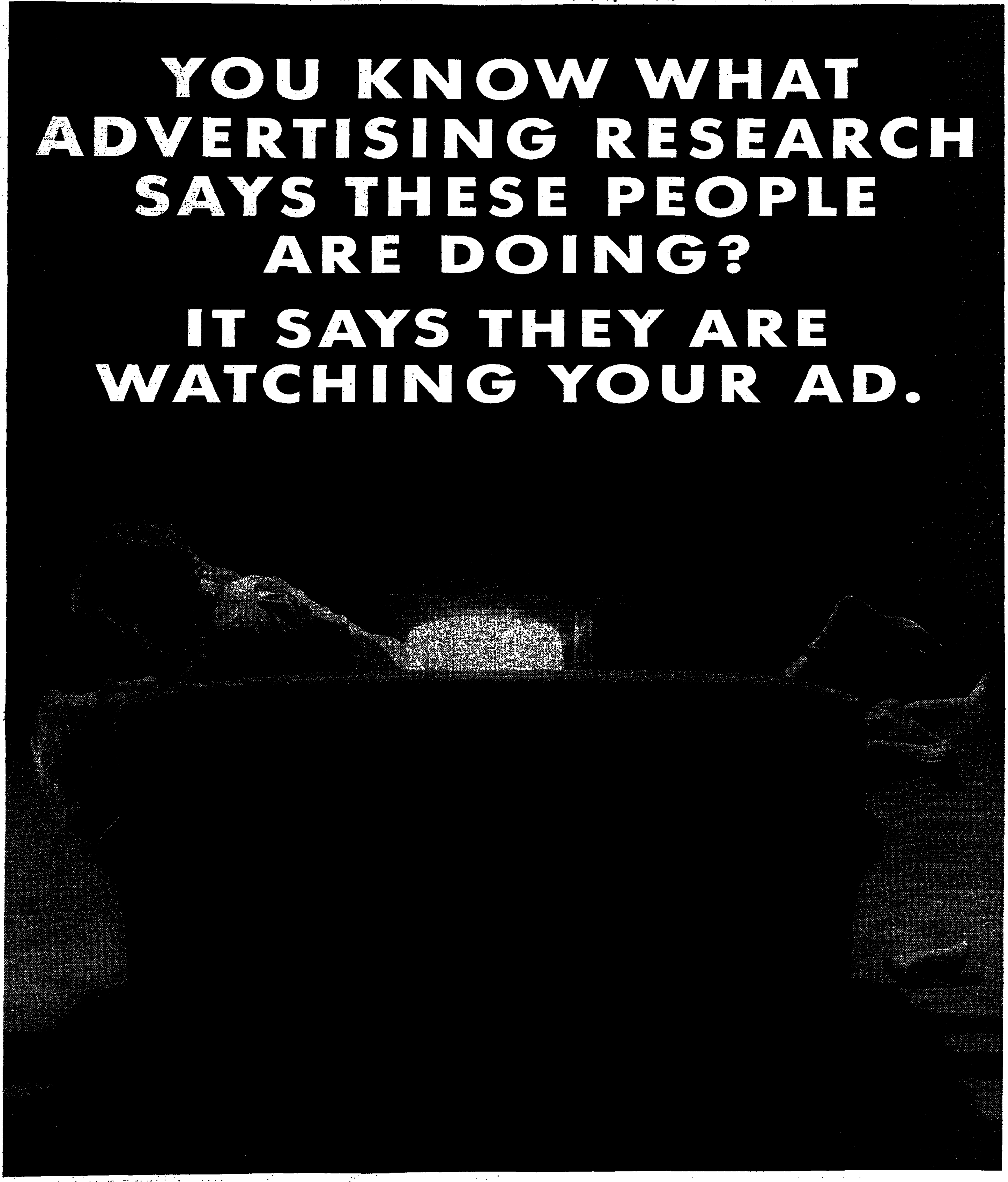
FUTURE DATES

Interims-

Boxmore	Oct. 24
Bracken Mines	Oct. 18
British Shoe	Oct. 18
City Of Oxford	Oct. 18
East Rand Gold	Oct. 19
Eastern Produce	Oct. 20
Free State Cons Gold	Oct. 19
Geers Gross	Oct. 17
Gerrard & National	Oct. 19
Jantar	Oct. 20
Kinross	Oct. 18
Leslie Gold Mines	Oct. 18
Mexico Fund	Oct. 19
Orange Free State	Oct. 19
Plasticseal	Oct. 25
Rands Mines	Oct. 16
Trans World Comms.	Oct. 13
Transvaal	Oct. 19
Unisel	Oct. 18
Value & Income	Oct. 24
Waterford Wedgewood	Oct. 16
Welkom Gold Mines	Oct. 19
Winkelhaak	Oct. 18

Finals-

Broad Street	Nov. 20
Manchester & London Inv	Oct. 12
National Home Loans	Oct. 28
Pressac	Oct. 24
Shandwick	Oct. 24
U.D.O.	Oct. 31



Current advertising research is breathtakingly inaccurate, because its methods are outdated. For instance, it says that people in the same room as a switched-on TV are always watching the TV.

Whereas even common sense will tell you that they sometimes have other things on their mind.

This is just one way current media research misleads clients when it comes to judging the reach – and hence the effectiveness – of their advertising.

We can tell you of others. Because we've put together a report which documents the failings of existing media research – and which suggests a radical, but practical, alternative.

We'll happily give you a copy of our report, if you send us your business card, or ring George Michaelides, our Head of Media Strategy, on 01-436 3333.

Alternatively, take another look at the picture above. Is that what is happening to your advertising budget?

Please send your business card to:

George Michaelides, Head of Media Strategy,
Howell Henry Chaldecott Lury Advertising, 14/17 Market Place,
Great Titchfield Street, London W1N 7AJ.

Another retailer warns about future earnings

Austin Reed falls 32% to £2.05m midway

By Nikki Tait

AUSTIN REED Group, the up-market clothing manufacturer and retailer, yesterday became the latest in a string of retail companies to warn about future earnings.

Announcing a fall in pre-tax profits from £3.03m to £2.05m in the 28 weeks to August 12, Mr Barry Reed, the executive chairman, told shareholders that "although the company is in a strong position to withstand adverse trading conditions, the outcome of the remainder of the year must be viewed with caution."

The interim dividend is being held at 3p a share, "in view of the immediate outlook," although earnings per share - after a 35 per cent tax charge - fell from 7.1p to 4.8p. The 'A' shares slipped 28p to 197p yesterday.

During the six months, sales rose from £38.1m to £41.14m, with the retail side showing an increase of about 5 per cent on flat volumes. The company described the womenswear season as "successful," but said that the larger menswear side was hit by reduced consumer spending and the hot summer.

It also blamed the effect of transport strikes in the south-east, where it derives almost two-thirds of its retail business. Exports continued to expand, and the manufacturing side showed profits growth.

Overall, trading profits eased by 6 per cent to £3.58m (£3.8m) in the first half, while interest charges which doubled from £764,000 to £1.52m, left pre-tax profits down by a third. Gearing is expected to be about 30 to 35 per cent by the year-end.

Austin Reed said about 70 per cent of its UK stores had been refurbished. Capital expenditure has totalled about £2.3m so far this year, with another £1.2m due to be spent by the year-end. However, planned expenditure of about £2m is being deferred, in the light of the retail climate.

● COMMENT

Analysts seemed mildly disappointed by yesterday's results, pre-tax estimates having been pitched closer to £2.25m, but there was little in the figures that could not have been anticipated. While Austin Reed's retail customers may be the well-heeled, middle-aged bracket, the company is also heavily dependent on the London/south-east market; equally, the impact of sharply higher interest rates, which did the damage at the pre-tax level, was scarcely surprising. Looking to the more crucial second half, the message seems to be more of the same, with womenswear sales still reasonably firm, but menswear lagging sadly. This difficult UK retail picture may be partly bolstered by a stronger export side and by royalty income, but the midpoint of analysts' estimates for the full year now seems to be about £6m, against £8.1m last time. That gives a prospective multiple of about 14 times and, with the outlook for 1990 so unclear, that must look high. The comfort is that asset backing and a fairly secure yield prop should at least limit the downside.

Barry Reed: transport strikes hit trading in south-east

Polly Peck sets stage for sale of textiles side

By Clay Harris

POLLY PECK International, the fresh produce distributor and electronics manufacturer, yesterday set the stage for disposal of its textile operations by announcing plans to buy out the minority in its Hong Kong-quoted subsidiary.

The UK-based group proposes to pay HK$2.33 for each outstanding share and 30 cents for each warrant in Polly Peck Far East, which holds all but one of Polly Peck's textile businesses. The purchase of the PPFE minority, for a total of £13.8m, will facilitate the piecemeal disposal of its constituent operations, which account for about 12 per cent of group sales and 3 per cent of profits.

Textiles have fallen from favour at Polly Peck in the wake of the expansion of its food business, most notably through the acquisition of Del Monte's fresh fruit operations for $875m (£565m) last month, and its electronics activities.

PPFE was formed in the summer of 1988 when Polly Peck bought control of Rainbow Orient Corporation, a Hong Kong-listed cash shell formerly owned by Sir Ron Brierley. Polly Peck injected most of its textile interests into the renamed company, which was intended to become the vehicle for its Far East expansion. However, Polly Peck noted yesterday that its interests had developed along global business lines rather than within geographic areas.

Moreover, PPFE shares had traded thinly since the formation, rarely exceeding the price at which shares were publicly offered.

Polly Peck has pitched its offer to the minority at exactly the same level, although shareholders have received a dividend of 8 cents in the meantime.

Wm Sinclair up 32% to £3.34m and sees further growth

By Peter Franklin

FOLLOWING a three-year programme of acquisitions and investment in new plant and machinery, William Sinclair Holdings, the garden products supplier, reported a 32 per cent improvement in pre-tax profits in the year to end-June 1989.

Mr Tom Sinclair, the chairman, said the activities of the company had been grouped into three divisions, each of which had made a positive contribution to the result.

From turnover up 6 per cent to £27.61m (£21.95m), pre-tax profits improved from £2.53m to £3.34m. Of this the largest proportion came from the compost and fertilisers division, which put in £2.29m (£1.83m).

Some 70 per cent of the business here came from sales in the hobby gardening sector, where compost was the company's mainstay product.

The installation of a new fully-automated compost plant in Lincolnshire was now complete and this would provide the increased output necessary to meet the demands of an expanding market, said Mr Sinclair.

Margins had also been improved by the use of its own peat resources. About 60 per cent of the company's needs are now supplied from them. Sinclair would be almost totally self-sufficient in peat this year, and had a 25-year bank of reserves, said the chairman.

The timber by-products division contributed £758,000 to group profits. Much of this came from the sourcing and marketing of bark, which the company sees as one of its greatest growth areas.

The garden accessories and retail division turned in profits of £288,000. Here the prospects for sales of products such as organic pots and hanging baskets were seen as another growth area.

Mr Sinclair said that the group had not suffered from the effects of the consumer downturn and its market was expanding. The search for further growth through acquisitions was continuing, he said.

After tax of £1.18m (£890,000), earnings per share came out at 13.9p (11.2p). A final dividend of 4p is recommended, making a total for the year of 5.25p (4.25p).

Sinclair's shares closed down 8p on the day at 280p.

Lloyds Chemists doubles but shares finish 15p lower

By Andrew Bolger

LLOYDS CHEMISTS, the UK's second largest retail chemist and drugstore chain, almost doubled its pre-tax profits from £5.15m to £10.25m in the year to June 30.

However, the company disappointed the City by including £660,000 from property disposals within the profits figure and the shares quickly lost 19p to 169p. They closed at 193p, down 15p on the day.

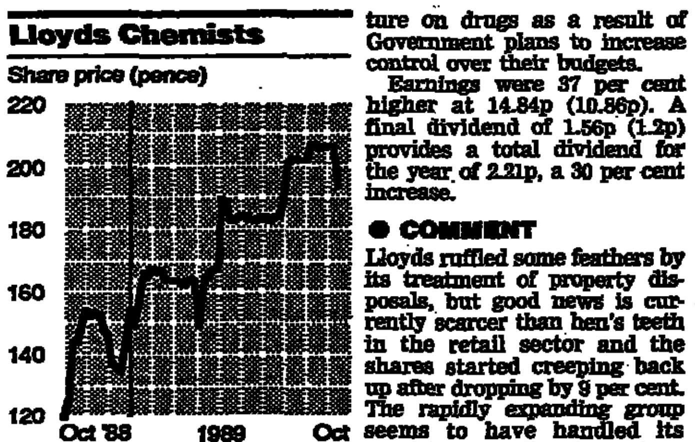
Turnover, boosted by two major acquisitions, rose by 83 per cent to £149.3m (£81.44m). During the period Lloyds bought Allens Chemists for £29.3m from Next, the retailing group, and Bannister & Thatcher was acquired for £3.7m.

Lloyds has 352 chemist stores, compared with Boots' 1,052, and 124 drugstores, which sell toiletries and cosmetics but have no pharmacy.

Mr Allen Lloyd, chairman, said established stores were achieving sales 7 per cent higher than a year ago and drugstores were 16 per cent ahead of last year.

Mr Lloyd said the company was well placed to ride out a consumer spending downturn. Indeed in his experience more people became ill during a recession, and that more than compensated for any drop in discretionary spending.

Lloyds continued to develop



own-label products, which offered higher margins. There were now more than 900, with a target of 1,250.

The opening hours of all chemist shops had been reviewed and currently 93 stores opened until 7pm. A further 19 opened even later, of which four stayed open until 10pm. It was intended to continue this trend towards extended hours.

Mr Lloyd said the increasing use of generic drugs within the National Health Service, helped his company, which achieved higher margins from them. He was also confident that there would be no drop in general practitioners' expenditure on drugs as a result of Government plans to increase control over their budgets.

Earnings were 37 per cent higher at 14.84p (10.86p). A final dividend of 1.56p (1.2p) provides a total dividend for the year of 2.21p, a 30 per cent increase.

● COMMENT

Lloyds ruffled some feathers by its treatment of property disposals, but good news is currently scarcer than hen's teeth in the retail sector and the shares started creeping back up after dropping by 9 per cent. The rapidly expanding group seems to have handled its acquisitions well, gaining from bulk-purchasing, economies of scale in distribution and increased margins from its own-label products. It also seems to be relatively recession-proof, even if one does not fully buy the chairman's sanguine view of the link between individuals' health and the state of the economy. Profits could reach £14m next year, with earnings of 18.5p. That would put them on a prospective multiple of 10.5, which is still at a small discount to the sector. The price has already risen sharply this year, but does not seem unreasonable in view of growth prospects – another unusual commodity in retailing at present.

Quadrant tops £4m and makes two acquisitions

QUADRANT GROUP, the cellular communications, photographic and video equipment group, pushed profits through the £4m mark in the half year year to August 31.

The company also announced the acquisition of another two companies, Morway and Colorwave, for an aggregate consideration of £2.2m as well as a final "earnout" payment of £225,000 to the vendors of Telephone World, acquired in September 1987.

The consideration for the acquisitions was satisfied as to £2m cash and the issue of 149,123 ordinary, of which 43,968 will be retained by the vendors of Morway and 105,263 by the vendors of Colorwave.

Turnover and pre-tax profits of Morway for the year to December 31 last were £1.65m and £108,000 respectively; those of Colorwave were £603,000 and £7,267.

The board said the second half had started well against a background of rising interest rates. However, the company was continuing to seek margin improvements and to control all costs within their businesses and were looking to a rewarding outcome for the full year. Meanwhile, the balance sheet remained healthy with net assets of £20m and with net cash of over £10m.

Reflecting an improvement in margins, pre-tax profits have increased from £1.71m to £4.05m on a turnover of £41.53m (£24.54m). There was interest receivable of £207,000 (£21,000 payable). Tax took £1.3m (£426,000) and earnings per share emerged at 9p (7.32p) for an interim dividend which is raised from 1.25p to 1.5p.

Pochin's raps industry over tendering

A 76 PER CENT growth in pre-tax profits was achieved by Pochin's, the Cheshire-based builder and civil engineer, for the year to May 31 1989.

In announcing the results, Mr Michael Pochin, the chairman, said that once again the market had degenerated to nil levels of profitability, and he asked why the industry, with its wealth of experience and knowledge, should act so irresponsibly when it came to submitting tenders.

On turnover ahead by 35 per cent from £28.57m to £38.46m the taxable result was a record £3.12m (£1.78m).

The directors have proposed lifting the final dividend to 20p (15p) for a 24p (19p) total and there is a special dividend of 5p. Earnings jumped to 216.7p (124.3p) per share.

Mr Pochin commented that contracting and design and building activities had a very successful year. The company was currently operating a fleet of over 100 mobile concrete pumps from 16 locations throughout the UK.

It continued to increase its property portfolio and planned further developments for the current year. Additional land had been acquired on the Middlewich Motorway Estate.

Musterlin calls for £3.6m as profits reach £107,000

By Jane Fuller

MUSTERLIN Group, the USM-quoted publisher and book packager, has announced a fourfold increase in interim profits and a rights issue to raise £3.6m.

The pre-tax result for the six months to June 30 was £107,000 (£25,000) on turnover of £4.93m (£3.56m).

The issue involves 2.37m ordinary shares at 160p each.

It is designed to halve the company's 90 per cent gearing, reduce the interest burden and improve profits, Mr George Riches, the chairman, said.

It would also increase Musterlin's share liquidity and enhance the "war chest" for expansion. After last month's acquisition of South Park Press, a New York publisher of art books and graphic products such as calendars and address books, Mr Riches said the next target would be in West Germany.

Mr Riches expects profit for the full year to be at least £1.4m (£1.1m) on turnover in excess of £12m (£10.1m). The interim dividend is 1.25p and the forecast total for the year is 5p (4p).

Musterlin's dependence on Christmas for its mainly hardback book sales and on this month's Frankfurt Book Fair for Equinox's international-licensing contracts means that most of its money is made in the final quarter. In 1988, a first half loss per share of 1p turned into earnings of 12p by the year-end.

For the Christmas market a great hope is an historical novel called Quincunx, set in Victorian England, published by the Canongate subsidiary. In the longer term, Musterlin (named after King Arthur's short sword, companion to Excalibur) has great hopes of a compilation of letters to the Soviet leader Mikhail Gorbachev.

However, such forays into best-selling territory are not the forte of this scholarly, Oxford-based outfit. The bulk of its turnover comes from Phaidon Press, noted for its finely illustrated art books, and Equinox, which produces illustrated reference works, such as the Encyclopaedia Britannica, under licence.

Through overseas business and a subsidiary in the Netherlands, two thirds of Musterlin's turnover is outside the UK and the inclusion of the new US subsidiary will further this trend. It is expected to have annual sales of £2.5m.

This spread is just as well because the UK is a source of worry: both because of the squeeze on consumer spending – "we're waiting to see whether Christmas will happen in the UK high street," said Mr Riches – and because of the disappointing first half performance by Lennard Books.

This subsidiary, which produces more down-market, short-lived titles, had more returns than expected as the cash strain told on book shops.

NEWS DIGEST

Johnston Group shares dive by 65p

SHARES OF Johnston Group, a specialist civil and mechanical engineer, fell by 65p to 340p yesterday following news of a fairly static opening six months.

From a turnover virtually unchanged at £50.38m (£50.11m), profits for the six months to end-June edged ahead by just 3 per cent to £3.06m at the pre-tax level.

The directors said the uncertain timing of the settlement of contractual claims and property development sales made it difficult to predict the outcome for the full year.

During the first half, the road maintenance operations performed well, but the construction activities produced poor results. In addition, margins were eroded by inflationary price rises of materials used on water *engineering* contracts.

The interim dividend is being lifted by 1p to 4p from earnings of 16.24p (16.29p). A total of 11.5p was paid for 1988 from pre-tax profits of £8.07m.

Second half limits Gandalf's sharp fall

A recovery in the second half enabled Gandalf Technologies to report pre-tax income of £981,000 for the year to July 31. However, this was still greatly reduced compared with £7.6m in 1988, which benefited by £1.4m from the sale of CASE stock. Turnover increased from £78.3m to £81.6m. Earnings per share from continuing operations came to 0.5p (27p).

Mr Desmond Cunningham, chairman and chief executive of the Toronto-based computer networking company, said the excellent results from systems business made him very optimistic for prospects for the current year.

J Billam almost doubled at £63,000

J Billam, Sheffield-based precision engineer, achieved a 95 per cent increase in pre-tax profits from £32,309 to £63,040 in the six months to June 30. Turnover rose by 23 per cent to £2.69m against £2.19m.

Mr Leo Wright, chairman, said the result was in spite of keen competition, high interest rates, increased administration costs and a general shortage of skilled labour.

He added that the second half would be difficult, especially in view of the high costs of borrowing, but every effort was being made to reduce administration costs and tominimise expenses associated with the building expansion programme.

An unchanged interim dividend of 1.64p is being paid, while earnings per 10p share increased from 1.5p to 2.38p.

Jerome suffers midway setback

S Jerome & Sons (Holdings), the textiles and electronics group, experienced a £120,000 profits setback to £1.04m pre-tax for the six months to end-June. Turnover rose from £13.81m to £17.23m.

Earnings fell to 9p (12.8p) but the interim dividend is being maintained at 2.6p.

The directors blamed the profits fall on three factors – pressure on margins, the *timing of contracts* which resulted in a profits fall of some £90,000 from the electronics side, and higher interest and depreciation charges.

Electronic orders in hand for completion in the second half were *such that the division's* full year performance should compare favourably with the previous year's.

Gardiner of Selkirk, a traditional woollen fabric and yarn business acquired a year ago, chipped in turnover of £3.4m and pre-tax profits of £380,000 in the first half.

Decline at R&V in first set of results

R&V Information Systems, the Dutch systems house which gained a quotation on the USM in March, suffered a sharp decline in pre-tax profits in the six months to June 30.

The company said that the downturn – from Fl 721,000 to Fl 219,000 (£68,000) – was due to the unexpected, yet "significant slowdown in growth" in the Dutch information systems market. Earnings fell to 2.26 cents (7.62 cents).

Turnover was flat at Fl 6.16m (Fl 6.38m) at a time when costs rose to Fl 4.01m (Fl 3.42m), mainly due to the hiring of additional skilled staff to meet what had been an anticipated growth in business. However, the company believes it has identified the trends behind the shift in market requirements and preferences, and has adopted a strategy and introduced a product line to put it in a strong position for growth.

While it is still too early to predict the outcome for the year, the directors are confident in the long-term prospects and have declared an interim dividend of 0.308 cents.

Linked plantations concerns show rises

Three companies connected by shareholdings and plantations interests yesterday reported their results for the six months to June 30.

Taxable profits at Anglo-Eastern Plantations rose by 42 per cent from £312,000 to £443,000, and at Chillington Corporation the advance was 56 per cent from £1.87m to £2.92m. In May Chillington, which has interests in plantations, engineering and trading, became the majority shareholder in Anglo-Eastern. At the same time REA Holdings, a commodity trader, reduced its holding to about 5 per cent. REA increased profits 34 per cent from £234,000 to £314,000 in the six months under review.

Anglo-Eastern is paying a maiden interim dividend of 1p, and intends to pay a final *dividend of 1p. However, the board* has decided not to offer a scrip dividend for the year. Chillington is raising its interim payment to 3.25p (3p) and REA's payment rises to 4p (3p).

Le Creuset doubles profits to £655,000

Le Creuset, the French enamelled cast iron cookware company which joined the USM in July, doubled pre-tax profits to £655,000 in the first half of 1989 against a previous £315,000.

Turnover advanced by 26 per cent to £14.7m (£11.7m) and Mr Paul van Zuydam, the chairman, said group sales continued to be resilient, benefiting from the international spread of the business and the quality positioning of its products. He added that, despite the uncertain market conditions in the UK, the *group* continued to trade as forecast.

Operating profits reached £1.03m (£643,000) and were expected to be higher in the traditionally stronger second half, when the group benefited from higher pre-Christmas sales. Production costs and overheads also tended to be concentrated in the first half.

Tax charged was £46,000 (nil), leaving earnings per share of 3.4p (1.7p). As forecast, there is no interim dividend. The forecast final dividend is FFr0.22 on pre-tax profits of at least £2.4m.

Forward Technology lifted to £925,000

Forward Technology Industries, a manufacturer of electronic and sound and vision equipment, increased its profits from £743,000 to £925,000 pre-tax for the half-year ended June 30.

The directors said the company had entered the second half with an order book com*fortably above 1988's level and* they expected a reasonable performance from both activities.

First-half turnover rose to £17.82m (£15.04m) and profits broke down as to electronics £1.11m (£1.04m) and sound and vision £147,000 (loss £217,000).

Earnings amounted to 1.7p (1.4p) and the interim dividend is a same-again 0.6p.

Interest rates hit Equity and General

A fall from a restated £310,000 to £232,000 in first-half 1989 pre-tax profits of Equity and General, the financial services and *motor retailing concern*, was due to increases of over 60 per cent in borrowing costs because of high interest rates.

Mr LP Altman, the chairman and chief executive, said the motor division performed well *in a strong but highly competi*tive market and trading profits were significantly ahead of last year.

The most recent acquisition of a Vauxhall main dealer in Hertfordshire was expected to *make a contribution to pre-tax* profits in the second half.

Turnover for the first half was up from £13.87m to £24.25m and operating profits were £1.51m (£962,000). Interest charges doubled from £652,000 to £1.28m and after tax of £69,000 (£12,000) earnings per 5p ordinary share came out at 0.63p (1.28p). The interim dividend is maintained at 0.5p.

PUBLIC WORKS LOAN BOARD RATES

Effective October 11

Years	Quota loans repaid by EPY†	Quota loans repaid At††	Quota loans repaid at maturity§	Non-quota loans A* repaid by EPY†	Non-quota loans A* repaid At††	Non-quota loans A* repaid at maturity§
1			13¾			14½
Over 1 up to 2	13⅜	13⅜	12½	14⅜	14⅜	13¼
Over 2 up to 3	12¾	12⅝	11⅞	13¾	13⅝	12⅝
Over 3 up to 4	12¼	12⅛	11⅝	13¼	13⅛	12⅜
Over 4 up to 5	12	11⅞	11⅜	13	12⅞	12⅛
Over 5 up to 6	11¾	11⅝	11⅜	12¼	12⅛	11⅞
Over 6 up to 7	11⅝	11½	11¼	12⅛	12	11¾
Over 7 up to 8	11½	11⅜	11⅛	12	11⅞	11⅝
Over 8 up to 9	11½	11⅜	10⅞	12	11⅞	11⅜
Over 9 up to 10	11⅜	11⅜	10¾	11⅞	11⅞	11¼
Over 10 up to 15	11⅛	10¾	10¼	11⅝	11¼	10¾
Over 15 up to 25	10⅜	10⅛	9⅞	10⅞	10⅝	10⅜
Over 25	10	9¾	9¾	10½	10¼	10¼

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

MANAGEMENT: Marketing and Advertising

Automotive accessories

Seeking added value from a sheep's stomach

Pittard Garnar has plans for chamois leather, Nikki Tait reports

How do you create a branded product – especially if you are a small or medium-sized company, denied the extensive marketing resources of a Unilever, say, or a Nestlé?

Pittard Garnar, a medium-sized leather manufacturer based at Yeovil in Somerset, hopes it has an answer. This £40m quoted group is about to try persuading car-owners, both in the UK and the US, to discard their current scrappy car-cleaning rags in favour of a new-style chamois, which has the technical advantage – "unique selling point" – of drying soft.

The plan is to market this under the Pittard name at a 25 per cent premium to the normal product.

If successful, the new product will be something of a breakthrough in the leather industry. To date, chamois has been viewed virtually as a "by-product" of the meat industry. Sheepskins are treated, wool removed, and the top quality pelts then go into high-grade clothing leather.

That leaves the lower quality skins, which either become cheaper clothing material or undergo a "splitting" process. Here, the skins are divided into "skivers" – the outer layer used for diary coverings, handbags and the like – and the inner layer which is the chamois.

Some 60m sq ft of chamois are produced this way each year, with the biggest single use for the product being "wash leathers". The US forms the largest retail market, worth up to $50m and taking about 25 per cent of world production; the UK comes in at up to £15m. Pittard, which currently sells about £8m-worth of chamois a year, is one of a small band of significant producers.

There has been limited "branding" of chamois for some time. Rival UK producer, Eastern Counties Leather, for example, sells under its own name, while some supermarket chains offer "own-label" chamois. But price discrimination has not been significant, and no one has made any real attempt to move the product upmarket.

Pittard's aspirations, it should be added, do not end with the car market. It thinks there could be potential in the optical market, the golf market (chamois to dry the clubs), or the cycling market (chamois goes into cycling shorts which could now be washed).

To carry the notion a step further, there might even be aesthetic possibilities. There is no technical hurdle to colouring the product, embroidering on it, or punching a pattern. A vision of boat/ski-loving yuppies rubbing down their weekend toys with individualised, avocado-coloured pieces of leather swims before the eyes.

With test-marketing of this new chamois just completed, everything has yet to be proved. Nevertheless, the 20-month development programme already throws up some interesting insights into how a company with fairly limited resources can attempt to tackle the formidable problem of turning commodity output into premium-priced sales.

Pittard's motives for rethinking its chamois marketing are simple enough. On the one hand, leather is a fickle business, and exposure to frequent raw material price swings can have unpredictable consequences.

On the other, the UK industry has been subject to extensive bid activity in recent years and Pittard Garnar – itself the result of a merger between Pittard and Garnar Booth – has found rival leather group, Strong & Fisher, sitting on an uncomfortably large number of Pittard's shares. In short, any improvement in the quality of profits via the introduction of a greater value-added element is welcome ammunition.

It was shortly after the Garnar merger, in August 1988, that Pittard first called in a Saatchi & Saatchi subsidiary, Hall Harrison Cowley, to undertake some initial consumer research. The results, according to Pittard, showed a broad enthusiasm for chamois's water-absorbancy and gentleness. However, 53 per cent of the sample suggested that its principal falling was the tendency to dry into a hard, grubby material. There was strong dislike of chamois' "sliminess" when wet.

From a technical viewpoint, that was not too discouraging. For some years, leather manufacturers have been developing a means of "waterproofing" leather; by reversing this technology, it was possible to produce chamois where the fibres were treated so that they did not become matted when dry. By the end of 1988, Pittard had a prototype of this "dry-soft" leather ready. The technical work, it says, cost less than £100,000.

The next stage was to gauge consumer reaction more fully – on both sides of the Atlantic. With the aid of existing marketing contacts in the US – Pittard already sells much of its glove leather there – the company set up six consumer panels in the US, plus a further four in the UK. Each comprised about a dozen car-washing, chamois-using individuals, with home towns ranging from Chicago to Swindon.

The results are an intriguing mass of detail about car-owners' behaviour. For example, the survey suggests that the size of cars in the US means that users tend to "flick" their chamois across the paintwork, while the Brits screw it into a ball. Americans, therefore, demand a larger piece of cloth. A US male audience is deeply sceptical of coloured chamois, dismissing it as a synthetic material; women are more receptive. And so on.

But aside from the practical implications of this information – sizing the product, for example – Pittard says it was also very encouraged by the overall response to the "new" chamois.

So the next step was a choice of name and accompanying packaging. At this point, lacking expertise, Pittard turned to the Design Council for suggestions, ending up with a London-based company, Packaging Innovation. Again, ideas were bounced off the consumer panels.

Various notions quickly bit the dust. The likes of "The Soft One" and "Stay-Soft" were dismissed on the grounds that they were either reminiscent of lavatory paper and deodorants, or could be difficult to register and protect. An alternative approach, macho packaging under the "Chamo" name, brought howls of derision from the UK audience.

In the end, the decision was to adopt the "dry soft" description, but to capitalise on the extremely English Pittard name. With suitable emphasis on the second syllable, this appeared to invoke an aura of upmarket luxury with the US audience.

The packaging was designed to reflect this – gold, brown and red, with the use of a crest at the top of the cardboard holder. Playing to the size and feel of the leather, the company decided against flat, enclosed packaging. Instead, it opted for a tie-like design, which leaves the leather both tactile and emphasises its size.

Whether this seduces customers, and changes buying habits is another matter. So far, the company maintains that the test-marketing – done through 32 US and 24 UK stores – has been highly encouraging; 40 per cent of what was thought to be enough stock for 90 days sold out in three weeks, and there seemed to negligible price resistance.

The more formidable test, however, will come when a major auto-goods retailer – a number of which have expressed interest, including the 700-strong Pep Boys chain in the US – sees how well it can move a bulk order. The first indications could come by the year-end; one US automotive retailer, Venture, has just made the first major order – for $50,000 of pre-Christmas stock.

For Pittard, there is everything to play for. Total development costs stand at a fairly modest £250,000 so far. Yet it is already aiming for around $4m of "dry soft" sales next year with a product that offers net margins of between 10-15 per cent – a substantial improvement on those achieved with the conventional chamois.

Derision greeted suggestions to call the new product "Chamo" Stanley Lewis

The good, the bad and the ugly of hospitality

When the Savoy Hotel Group this week launched a corporate hospitality service it not only stepped into an activity which has an uneasy role in the marketing mix but chose a moment which is not the most opportune for the industry as a whole.

As Peter Selby, a director of Keith Prowse, one of the leading players, remarks: "Demand for the sector in the second half of this year is far less buoyant than in the last six months of 1988."

The Savoy has already lined up several potential clients. "We carried out research earlier this year which showed that many major companies were unhappy with the sort of corporate hospitality service they were being offered," explains Peter Bates, the Savoy's marketing director. "They felt that existing corporate hospitality concentrated too much on mass-market events which were becoming a bit of a bore, rather than developing a more personal service tailored to their needs."

The Savoy claims that it is the first UK hotel group to offer such an add-on corporate hospitality service, but its participation has come at a time when the whole business of entertaining clients at sporting events such as Wimbledon, or opera evenings at Glyndeborne, is coming under increasing corporate scrutiny.

Rising interest rates and the fear of recession is making companies think twice before laying out a minimum of several thousand pounds – and often much more – to host events which seemingly provide little immediate return.

Keith Prowse Hospitality, the largest supplier of corporate entertaining events, is well placed to gauge the current mood in the business world. And the fall-off that it reports is, in its own case, despite the fact that it provided the official hospitality at the recent Ryder Cup golf matches at The Belfrey, probably the largest such business entertaining event of the year.

But with the price of watching the Europeans retain the cup costing companies up to £130 per head, even Selby admits that "there was a bit of a marketing job to do – compared with this time last year when companies would buy anything going."

Yet money is not the only inhibitor on corporate entertaining. Some companies are concerned at the impact of the growth of business hospitality on their own employees. Are executives, for example, spending too many days out of the office at functions paid for by clients – and are they being subject to undue influence?

"Some executives," points out Alison Moxom, managing director of incentive and corporate hospitality organiser Travel For Industry, "are faced with several invitations to the same event; they are simply 'refusing to play the game' and decline everything as a matter of policy." Directors of Sainsbury, the supermarket chain, for example, conscious of the pressures that corporate entertaining can create, routinely refuse all invitations.

But the problem is not confined to business ethics. The rapid growth until this year of corporate entertaining – estimates suggest that UK companies spend at least £500m a year on such marketing, although this probably significantly understates the true spend – has clearly attracted many 'cowboy' operators and led to a falling off in standards.

Horror stories of corporate entertaining gone wrong abound in the industry's folklore. A group of car dealers invited by a major car company to a recent rugby international at Twickenham, for example, were not pleased to discover that there were actually no tickets for them to watch the game. The hospitality organiser had not managed to obtain any, even on the black market, and the disgruntled dealers were left to watch the game on television.

Concern over standards has led some hospitality organisers to set up a trade association, the Corporate Hospitality Association, to try to give the fledgling industry some credibility. Yet even this cannot garner full support from hospitality organisers. Keith Prowse and some other leading organisers refuse to join because the association does not exclude members from offering events for which they do not have official sanction to provide tickets.

"Our policy is that corporate events should only be offered to companies if the organiser has the official approval of the event's authorities, so that they can guarantee seats," says Selby.

But other problems are waiting in the wings. One, clearly, is simply boredom; many senior executives have 'done' most of the major events such as Wimbledon, Henley, Royal Ascot and so on several times and need increasingly to be wooed with novel ideas.

London-based advertising agency MSW Rapp & Collins, for example, recently entertained key contact staff at an adventure weekend at a hotel on the north Lancashire coast. Guests are put through a series of mental and physical tests – a cross between the two television programmes, It's a Knock-Out and the Krypton Factor - for £140 a head including food and accommodation.

Participation events have been growing in popularity in recent years – such as mock war-games using guns which fire paint balls – although the recent shake-out in the City has reduced the supply of yuppies preferring this type of corporate entertainment.

Playing golf is still regarded by most hospitality organisers as the participation event which business executives enjoy most, although clay pigeon shooting and trout fishing are increasingly popular.

Yet if corporate hospitality is to be seriously regarded as part of the marketers' armoury in the 1990s, it needs to rely less on hype and more on establishing its effectiveness. Even so, some companies still believe in the razzmatazz of a good stunt. EMI, for example, took entertainment industry executives on a train journey to Gleneagles, the luxury hotel in Scotland – and not only entertained them lavishly but had paratroopers drop on the train from the skies . . . to deliver personalised room keys for each guest.

David Churchill

COMPANY NOTICES

LEUMI INTERNATIONAL INVESTMENTS N.V.
US $20,000,000 GUARANTEED FLOATING RATE NOTES 1990 SERIES "B"
The interest rate applicable to the above Notes in respect of the three month period commencing 11th October 1989 has been fixed at 9⅜% per annum.
The interest amounting to US $23.80 per US $1,000 principal amount of the Notes will be paid on Thursday 11th January 1990 against presentation of Coupon No. 37.
BANK LEUMI TRUST CO OF NEW YORK
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CANADIAN PACIFIC LIMITED
(Incorporated in Canada)
ST. LAWRENCE & OTTAWA RAILWAY COMPANY

Copies of the Balance Sheet of the above Company as at December 31, 1988 are available and may be obtained from this office during normal business hours.
D.R. Keast
Deputy Secretary
62-65 Trafalgar Square
London WC2N 5DY

PERSONAL

THE ROYAL UNITED KINGDOM BENEFICENT ASSOCIATION, (RUKBA) is helping more and more elderly and infirm people in need, from a professional or similar background, to remain financially secure in thier own homes. It also helps those who need residential and nursing care. RUKBA is a registered charity. Please write to, William. Rathbone, RUKBA,Freepost,6 Avonmore Road,London, W14 8BR, to make a donation or to ask for more information about how to give by covenant or legacy.

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COMMODITIES AND AGRICULTURE

Britain relieved at court ruling on 'quota-hopping'

By Tim Dickson in Brussels

ANGER, RELIEF and uncertainty were among the many reactions voiced yesterday to Tuesday's order from the European Court of Justice curbing the UK's tactics in its two year battle against Spanish "quota hoppers."

The Court's interim verdict in the case – essentially an injunction pending the main hearing – means that Britain is being asked to suspend a key section of the 1988 Merchant Shipping Act which says that boats on a new fishing vessel register should be at least 75 per cent owned by British nationals.

These nationality requirements were carefully designed as part of a plan to outlaw the growing number of mainly Spanish vessels which had previously registered as British boats to take advantage of the UK's annual catch quotas distributed under the European Community's Common Fisheries Policy.

The anger – vividly reflected in yesterday's Spanish newspapers – came mainly from the Spanish boat owners who felt that the order had done little to protect their livelihood. They say that other allegedly excessive conditions laid down in the British legislation cannot be met by most of those who were hit by the new British rules when they came into effect in April this year.

The relief came from British officials who, notwithstanding the undoubted embarrassment of seeing an Act of Parliament challenged by the European Court in this way, feel that Britain has succeeded in the main object of protecting its fleet. Whether it has won only a short-term reprieve will depend partly on whether or not remaining sections of the Act are subsequently challenged.

Yesterday, experts in the European Commission who were busy studying the text, were happy that the Commission, which brought the action, had its view upheld at this stage. They pointed out, however, that the Court's order did not affect other key conditions laid down in the Merchant Shipping Act, notably covering residence and domicile qualifications.

In fact, the Commission never specifically mentioned these in its submission to the Court – a move which some consider to be a tactical error but which others believe was a shrewd move designed to give the Luxembourg based judges the leeway to find a political compromise. Officials in Brussels believe that the nationality requirements in the British legislation were so obviously in breach of basic Community rights of establishment and the right to participate in the capital of companies that there was little danger of losing that particular argument.

What concerns those who would like to take the matter further is that the Court has given strong hints that it may support Britain if the residence and domicile conditions are challenged at a later stage.

A key passage in the order states that "as regards the balance of interests, it is not established that the interim measures. . . may jeopardise the objective pursued by the British legislation at issue, namely to ensure the existence of a genuine link between the vessels fishing against British quotas and the British fishing industry."

In paragraph 40 the Court adds, "It appears *prima facie* that the registration requirements laid down by the new legislation, other than those relating to nationality, and the measures adopted by the UK authorities in 1983 and 1986 will be sufficient to ensure the existence of such a link. The UK itself considers that the Anglo/Spanish vessels, which do not have that link with the UK, will not be able to satisfy the aforesaid requirements."

Of less comfort to London was the Court's insistence that European Community law is not subservient to international law, on which the UK had rested part of its case.

The question now is whether the Commission, in the light of these passages, will have the stomach to challenge the other aspects of the Merchant Shipping Act, namely the residence and control and management conditions.

Part of the uncertainty is that the EC's Fisheries Commissioner Mr Manuel Marin is certain to come under strong pressure from some of aggrieved fishermen compatriots at home.

'No real impact' says Minister

By Bridget Bloom, Agriculture Correspondent

THE BRITISH Government does not expect a "new armada of boats" to invade its fishing grounds as a result of Tuesday's ruling by the European Court against the country's attempt to outlaw "quota hopping" by Spanish fishermen.

Mr David Curry, the Fisheries Minister, said yesterday that "no real impact" was foreseen from the ruling, which ordered Britain to suspend a section of its Merchant Shipping Act restricting registration of fishing vessels in Britain to British citizens or to companies three-quarters owned by Britons.

In a statement Mr Curry said: "The Court's order only requires us temporarily to suspend the nationality restrictions of Section 14 of the Merchant Shipping Act 1988 in respect of quota hopping vessels fishing under the British flag before 31 March 1989," (when the Act came into force).

"The requirement that the owners of British fishing vessels should be resident and domiciled in the UK remains, as does the need for the vessels to be controlled and managed from here." The quota hoppers would still have to comply with these conditions, Mr Curry added.

According to European Commission evidence to the European Court, quoted yesterday by British officials, probably only about 10 of the 100 or so boats engaged in quota hopping before the new Act came into force will now qualify to re-register as a result of the Court ruling.

British officials estimate that the non-British boats, most of which were Spanish, were catching an estimated £25m worth of fish, of which £17m was counted as "British quota", in the year to last March. Landings by British boats totalled some £400m in the same period. The Spanish fishermen were particularly interested in hake, taking some 80 per cent of the 3,000 tonne British quota, officials believe.

Both the Government and the fishing industry say they will need more time to study the full implications of the Court ruling but yesterday Mr Richard Banks, speaking for the National Federation of Fishermen's Organisations, was somewhat less sanguine about the ruling than Mr Curry.

Mr Banks agreed that in the short term it was unlikely that many non-British boats would succeed in registering. However, the longer term impact of the ruling could be "very serious" since with the nationality condition gone, ways could be found for non-British boats to circumvent the other conditions and register in future, Mr Banks believed.

He believed the ruling showed up the weaknesses of the European Community's Common Fisheries Policy, which was based on the very nationality criteria – in terms of the allocation of quotas – that had now been questioned.

Fast foods buy time for perestroika

Nancy Dunne on value-added US food sales to Moscow

WHILE FIREMEN were fighting the flames at a warehouse in Cambridge, Maryland, US Agriculture Department employees had their own battle going. Knocking a hole in the wall of part of the building untouched by the fire, they moved swiftly to rescue a valuable commodity – 4m pounds of government-owned *surplus butter*, designated for sale to the Soviet Union.

In the end, they ran out of time. The fire hit the refrigeration system, the butter began to melt, and the USDA deemed none of it salvageable for sale to what has become a most valued *American customer for* agricultural goods.

With the Soviets apparently having opted to buy time for perestroika by purchasing more foreign foods for their disgruntled consumers, the trading relationship between the two old enemies is fast moving beyond grains to include the value-added products the US most wants to sell. American suppliers are eager to do their part, providing bargain prices and, at times, government subsidies.

So far, the USDA has made up to 75,000 tonnes of cheap government-owned butter available, and there is plenty more in stock. The Government estimated a surplus of 135,000 to 140,000 tonnes of butter on September 30, an 84 per cent rise from the ending stock of the previous year.

The conviction that the Soviets will turn increasingly to the abundant US market for food bargains was strengthened last week by the announcement of a purchase of 15,000 tonnes of chicken parts, the first sale of US poultry to Moscow since President Carter in 1980 imposed an agricultural embargo after the Soviets invaded Afghanistan.

Republicans have since 1980 wielded the embargo as a political weapon against Democrats, and Mr Cooper Evans, White House agricultural adviser, framed the purchase in terms of the US having shown that it is "an acceptable supplier now as far as the Soviets are concerned."

The markets' view is a different one – that the purchase was driven by both Soviet political necessity and the right price. The Soviet system has yet to produce sufficient meat supplies, said Mr Gerald Zusel, manager of trading floor operation at Balfour Maclaine Futures in Chicago. "They know it takes nine weeks to raise a chicken and a couple of hours to buy chicken parts."

And the US price was right. The American fast food industry, which buys mostly white meat, has left such an excess of dark meat parts, that the deal was reportedly struck for parts at an estimated 30 cents a pound. This is well below what the Soviets' usual suppliers in France and Brazil are usually able to offer with government subsidies, according to Mr Bill Roenigk, an economist with the National Broiler Council.

Mr Roenigk believes the 15,000 tonnes is only a beginning. He expects purchases of an additional 15,000 tonnes in the first three months of next year, and he said the industry is talking hopefully about negotiating a long term agreement with Moscow for value-added products to run concurrently with a new agreement for grain.

The improved 1989 Soviet grain outlook has not dulled Moscow's appetite for American grains. In the last marketing year it became the number one US maize customer.

After announcing in September that it would absent itself from the grain markets for a time, Exportkhleb once again demonstrated that it needed no advice from anyone in the workings of the capitalist system. It swooped into the American grain markets last week, with orders the industry believes will total 4m tonnes of maize and 500,000 tonnes of soyabean meal.

The Soviets, said Mr Zusel are "very cunning, very good traders." Although maize futures initially climbed, the good weather prevailing during the US grain harvest and expectations that yields are better than the Government has estimated, settled prices back down by the end of the week.

Next on the menu could be oilseeds. The Soviets have expressed an interest and the industry's lobbyists are pressing hard for government subsidies. In a letter to the USDA, four farm groups predicted that the Soviets would buy up to 1m tonnes of fats and oils in 1989, up 34 per cent from 1988.

"US oilseed producers and processors have not participated in this growth, and would not expect to capture an appropriate share of these sales without export assistance," they said.

The USDA is now reported to be considering "assistance" for a sale of up to 75,000 tonnes.

For all these bargains, the Soviets have found something to send back to the US. The Agriculture Department announced on Tuesday that a special hit team of beetles and wasps had been imported from the Soviet Union to help US farmers fight the Russian wheat aphid, now destroying crops in 16 states.

The predator insects, natural enemies of the aphid, were collected in May and June in the southern region of the Soviet Union. They are being bred at "mass-rearing" facilities in the US.

Buffer stock may have to buy rubber

FALLING RUBBER prices may lead the International Natural Rubber Organisation into buying for the first time since the second International Rubber Agreement was adopted in April, according to Mr Aldo Hofmeister, the manager of the organisation's buffer stock, reports Reuter from Kuala Lumpur.

"The market will come off a bit more. We may have to enter the market. The general market sentiment is bad," he said.

Inro's five-day moving average on October 10 was 187.95 Malaysian/Singapore cents a kg, just above its may-buy level of 185.00.

The buffer stock last bought rubber in 1986.

Industry officials blame slow demand and a latex surplus for the soft market.

Under the second International Natural Rubber Agreement, grouping producing and consuming countries, the buffer stock manager may buy rubber when the Inro average, taken from four markets over five days, falls to 185 cents a kilogram. When it falls below 174 cents a kilogram he *must* buy.

Mr Hofmeister said he had been prepared to intervene in August when prices were at the lowest level for two years but was spared from the need to by a price recovery. But he said consumers might by now have stocked up sufficient rubber to last them for the rest of the year.

Malaysian rubber prices have fallen to a 30-month low, with the benchmark RSS (ribbed, smoked sheet) No. 1 grade offered at 230 cents at midday yesterday.

Mr Ng Kok Tee, head of market development of the Malaysian Rubber Exchange and Licensing Board, said he was puzzled as to why the market had failed to improve as there has not been a recent excess of rubber supply.

The board had forecast that rubber prices would rebound in September, saying that there would be tight supply in top rubber grades such as SMR (standard Malaysian rubber) grades 10 and 20 and that the depressed market for latex was expected to bottom out.

Traders said a combination of slack demand from South Korea, China and the Soviet Union and poor market sentiment had depressed prices.

Mr Ng said Malaysia's rubber production this year would be 10 per cent less than an original forecast of 1.624m tonnes because of lower prices and wet weather.

A rubber plantation official predicted meanwhile that prices would fall further, saying stocks on estates were high and the market was still under the cloud left by defaults on last year's latex contracts.

"Demand is bad, offtake is not there. Some consumers have switched to synthetics rubber as a substitute after prices rose to a 25-year high in May last year," said the plantation official.

"I don't see any fresh demand to spur the market up."

LME to scrap high grade zinc

By Kenneth Gooding, Mining Correspondent

THE LONDON Metal Exchange is to scrap its high grade zinc contract at the end of March.

Volume of trading in the contract has dropped sharply since September last year when the LME introduced its special high grade contract, for material containing 99.995 per cent pure zinc, to meet market requirements more exactly.

Yesterday the LME board decided that High Grade zinc (of 99.9 per cent pure zinc) had outlived its usefulness.

After its launch the SHG zinc contract quickly eliminated the European Producer Price for zinc as producers put their weight behind it and the exchange's contract became the preferred pricing instrument of the industry.

The decision to drop the High Grade contract came as no surprise to traders because in December last year the LME decided the trading span of the contract should be cut. It made March 1990 the furthest forward date traded whereas the span in other base metals contracts is 15 months.

The LME also said yesterday it would take no immediate action on a proposal to scrap the wirebars delivery option in its A grade copper contract. There have been protests, particularly from West Germany, about this proposal.

Mr Michael Brown, the exchange's chief executive, said the situation would be reviewed in September or October next year.

Highveld to cut vanadium output by 20%

By Jim Jones in Johannesburg

HIGHVELD STEEL & Vanadium, the South African steel and alloying metals firm, is to cut production of vanadium by about 20 per cent in response to slack international demand for the alloying metal.

The company says it plans to cut production at its Vantra division by two thirds, a reduction which comes eight months after February's announcement that Vantra's production capacity was being expanded.

Last year Highveld sold 50m lb of vanadium oxide and the bulk of its production was in the form of vanadium spinel, a co-product of steel making.

Vantra produces vanadium pentoxide directly from ore and its expansion plans envisaged an increase in pentoxide output to 17m lb a year from 13m lb.

A new rotary kiln is being installed at a cost of R25m (£4.2m) and had been expected to come on stream late this year.

Slack demand and increases in production in South Africa and other countries have left the vanadium market over-supplied.

Recently Highveld announced that it was cutting its fourth quarter pentoxide price to $5 a lb from its third quarter quotation of $6.30 which, in turn, was a reduction from the second-quarter's $7.50.

Prices had been particularly strong during the first half of the year and pentoxide spot prices touched $11 a lb at one stage as steelmakers feared Chinese supplies were drying up.

Between February and May steelmakers increased inventories of vanadium and are now reported to be deferring purchases until stocks are reduced.

In Johannesburg yesterday a Highveld official said prices were unstable at $5 a lb and that a production cutback was needed to stabilise them. He added that Vantra was unlikely to be returned to full production in the near future.

WORLD COMMODITIES PRICES

LONDON MARKETS

NICKEL prices closed at a 12-month low on the London Metal Exchange yesterday as base metals prices in general were in retreat. The exception was lead, which advanced on currency factors which made the sterling based *contracts look cheap in dollar terms.* Dollar-based nickel came under pressure from persistent influential merchant selling in the morning. Three-month metal closed at $9,985 a tonne, equivalent to $4.53 a lb. Analysts believe the market could now test the major support base of $9,600 to $9,800 a tonne. The currency factor helped copper prices to recover early losses which followed the sharp fall on Tuesday on Comex, which was a reaction to news of a possible imminent end to the Highland Valley strike. Tin prices closed at the day's lows in thin trading.

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$16.05-6.10q	+0.20
Brent Blend	$18.73-8.77q	+0.35
W.T.I. (1 pm est)	$20.35-0.40q	+0.25
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$210-212	+3
Gas Oil	$181-182	+3
Heavy Fuel Oil	$96-99	+1
Naphtha	$153-156	+2.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$361.5	-0.5
Silver (per troy oz)♣	506c	-1
Platinum (per troy oz)	$479.25	-3.25
Palladium (per troy oz)	$135.35	-0.50
Aluminium (free market)	$1775	-20
Copper (US Producer)	140⅝-142c	+1¼
Lead (US Producer)	40.5c	
Nickel (free market)	480c	-10
Tin (Kuala Lumpur market)	21.92r	-0.30
Tin (New York)	378.5c	-6.0
Zinc (US Prime Western)	80¼c	
Cattle (live weight)†	113.15p	-1.82*
Sheep (dead weight)†	161.99p	+9.45*
Pigs (live weight)†	105.03p	-0.33*
London daily sugar (raw)	$349.2y	-0.8
London daily sugar (white)	$394.5y	-9.0
Tate and Lyle export price	£340.5	+2.0
Barley (English feed)	£112.5x	
Maize (US No. 3 yellow)	£124.0	-0.5
Wheat (US Dark Northern)	£123.5w	
Rubber (spot)♥	56.50p	-0.25
Rubber (Nov)♥	59.25p	-0.50
Rubber (Dec)♥	60.00p	-0.50
Rubber (KL RSS No 1 Nov)	230.0m	-1.0
Coconut oil (Philippines)§	$475.0y	+7.5
Palm Oil (Malaysian)§	$312.5y	
Copra (Philippines)§	$310q	
Soyabeans (US)	£167q	
Cotton "A" index	82.00c	-0.20
Wooltops (64s Super)	607p	+10

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Oct/Nov. x-Oct/Dec. t-Jan/Mar. v-Sep/Oct. w-Oct. q-Nov. z-Jan/Feb†Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA – London FOX			£/tonne
	Close	Previous	High/Low
Dec	748	753	750 729
Mar	726	720	728 704
May	735	730	738 714
Jul	748	743	751 730
Sep	766	759	767 745
Dec	788	787	789 770
Mar	*808*	*810*	*809 791*

Turnover: 7749 (7039) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Oct 10 835.93 (845.49) :10 day average for Oct 11 857.97 (865.45)

COFFEE – London FOX			£/tonne
	Close	Previous	High/Low
Nov	696	690	705 675
Jan	682	674	685 660
Mar	696	683	687 670
May	700	698	702 690
Jul	717	713	716 713
Sep	735	734	735 730
Nov	753	756	

Turnover: 3445 (2760) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Oct 10: Comp. daily 58.98 (58.44). 15 day average 65.26 (66.96)

SUGAR – London FOX			($ per tonne)
Raw	Close	Previous	High/Low
Dec	311.80	310.00	306.00
Mar	306.80	305.20	310.20 304.20
May	301.40	300.00	304.40 299.40
Aug	295.80	294.40	295.00 293.00
Oct	286.20	285.00	289.40 284.00
Dec	284.00		278.00
White	**Close**	**Previous**	**High/Low**
Dec	386.00	388.00	387.00 384.50
Mar	386.00	386.00	387.50 385.00
May	386.00	385.00	386.50 382.60
Aug	392.00	390.00	391.50 389.50
Oct	372.00		371.50

Turnover: Raw 2497 (1966)lots of 50 tonnes. White 1491 (777).
Paris- White (FFr per tonne): Dec 2500, Mar 2508, May 2518, Aug 2580, Oct 2456, Dec 2360.

CRUDE OIL – IPE			$/barrel
	Close	Previous	High/Low
Dec	18.43	18.16	18.44 18.27
Jan	18.17	17.95	18.17 18.09
IPE Index	18.42	18.18	

Turnover: 8504 (9790)

GAS OIL – IPE			$/tonne
	Close	Previous	High/Low
Nov	177.00	173.75	177.25 175.25
Dec	174.75	172.25	175.25 173.25
Jan	172.75	170.25	173.00 171.50
Feb	168.50	166.25	169.25 168.00
Mar	165.00	162.50	165.00
Apr	160.50	159.50	162.00 160.50

Turnover 9510 (11961)lots of 100 tonnes

WOOL

HIGHER interest rates have depressed the UK market even further. Sterling's decline can be seen as remotely helpful on the export side, but hopes of passing on higher imported raw material costs are few. There are rumours of more short-time working in wool textiles. Wool markets world-wide continue to suffer from low demand, more especially from China where foreign exchange is not available at present. Tops are quoted higher for currency reasons in Bradford but there is no chance of selling at quoted levels of 607p/kg for 64s super merino tops, with crossbreds at 402p for 58s average.

LONDON METAL EXCHANGE	Close	Previous	High/Low	AM Official	Kerb close	Open interest
(Prices supplied by Amalgamated Metal Trading)						
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 22,250 tonne
Cash	1790-5	1805-10	1777	1777-8		
3 months	1758-60	1768-70	1760/1740	1745-7	1755-6	34,761 lots
Copper, Grade A (£ per tonne)						Ring turnover 34,100 tonne
Cash	1859-60	1898-7	1860/1849	1849-50		
3 months	*1859-60*	*1885-6*	*1869/1837*	*1849-50*	*1867-8*	*71,072 lots*
Lead (£ per tonne)						Ring turnover 10,950 tonne
Cash	472.5-73	463-4	473/471	471.5-2		
3 months	468-9	463-3.5	469/463	467-8	469-70	12,837 lots
Nickel ($ per tonne)						Ring turnover 840 tonne
Cash	10230-60	10650-700	10400	10350-400		
3 months	9980-90	10350-70	10250/9980	10100-25	9990-10000	5,973 lots
Tin ($ per tonne)						Ring turhover 540 tonne
Cash	8200-40	8360-70	8250	8260-70		
3 *months*	8250-80	8350-60	8300/8245	8280-90	8250-60	5,597 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 9,575 tonne
Cash	1670-5	1688-90	1678/1675	1676-7		
3 months	1662-3	1683-5	1675/1665	1668-70	1660-70	14,116 lots
Zinc ($ per tonne)						Ring turnover 3,600 tonne
Cash	1605-15	1625-8	1615	1615-6		
3 months	1590-600	1612-5		1595-605	1590-600	4,454 lots

LME Closing £/$ rate:
SPOT: 1.5435 3 months: 1.5196 6 months: 1.4960 9 months: 1.4767

POTATOES – BFE			£/tonne
	Close	Previous	High/Low
Nov	129.0	133.0	130.0 127.0
Apr	204.0	210.8	210.0 203.2
May	229.0	238.0	234.0 229.0

Turnover 661 (230) lots of 40 tonnes.

SOYABEAN MEAL – BFE			£/tonne
	Close	Previous	High/Low
Dec	140.00	139.50	140.00 138.50
Feb	146.00		146.00 143.00
Apr	144.00	142.00	144.00 141.50

Turnover 254 (30)lots of 20 tonnes.

FREIGHT FUTURES – BFE			$10/index point
	Close	Previous	High/Low
Oct	1518	1520	1526 1518
Nov	1604	1604	1615 1602
Jan	1622	1620	1630 1622
Apr	1647	1646	1655 1650
BFI	1479	1476	

Turnover 346 (466)

GRAINS – BFE			£/tonne
Wheat	Close	Previous	High/Low
Nov	108.50	108.35	108.50 108.10
Jan	112.86	112.75	112.80 112.50
Mar	116.40	116.00	116.40 115.75
May	119.35	119.00	119.35 118.90
Jun	120.90	120.55	120.55 120.50
Barley	**Close**	**Previous**	**High/Low**
Nov	105.85	106.05	105.90 105.80
Jan	109.75	109.90	109.90 109.65
Mar	112.90	113.00	113.00 112.75
May	114.70	114.80	114.70

Turnover: Wheat 328 (236), Barley 180 (244).
Turnover lots of 100 tonnes.

PIGS – BFE			(Cash Settlement) p/kg
	Close	Previous	High/Low
Oct	135.0		135.0
Nov	137.0	136.5	136.5
Feb	124.0	124.0	124.0
Apr	125.0	125.0	124.0

Turnover 131 (41) lots of 3,250 kg

LONDON BULLION MARKET		
Gold (fine oz)	*$ price*	*£ equivalent*
Close	361¼-361¾	233¾-234¼
Opening	361-361½	232-232½
Morning fix	360.40	232.167
Afternoon fix	361.05	233.614
Day's high	361½-362	
Day's low	360-360½	
Coins	**$ price**	**£ equivalent**
Mapleleaf	370-375	239-242
Britannia	370-375	239-242
US Eagle	370-375	239-242
Angel	370-375	239-342
Krugerrand	360-363	233-235
New Sov.	86-88	55-56¾
Old Sov.	85-86	55-56¾
Noble Plat	485.00-492.70	314.40-319.40

Silver fix	p/fine oz	US cts equiv
Spot	325.80	504.50
3 months	336.25	516.20
6 months	350.35	528.90
12 months	374.00	548.75

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Nov	Jan	Nov	Jan
1700	101	100	10	48
1800	37	52	45	95
1900	9	23	115	164
Copper (Grade A)	Calls		Puts	
2750	156	169	29	102
2850	82	120	64	151
2950	48	83	120	211
Brent Crude	Dec	Jan	Dec	Jan
1800	62	66	20	49
1850	31	41	39	
1900	14	26		

US MARKETS

IN THE METALS, silver futures gained from scattered short covering while gold and platinum had quiet sessions, reports Drexel Burnham Lambert. Copper prices rebounded from Tuesday's heavy decline on mixed buying. In the softs, technical selling continued to push cocoa prices down. December cocoa closed at $965. Sugar and coffee were firm in mostly local activity. The grains featured choppy trade in the soy complex. Corn and wheat futures were also mixed, with prices closing near unchanged levels. The livestocks saw heavy gains in the bellies from buy-stops. Higher cash prices were also noted. Cattle rose slightly as higher boxed cutout values provided support. Hogs slipped in light trade. The energy complex was higher from technical action.

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Oct	362.0	361.0	362.3	361.0
Nov	364.2	363.3	0	0
Dec	366.1	365.2	366.7	364.3
Feb	370.1	369.2	370.7	368.3
Apr	374.2	373.2	373.3	372.8
Jun	378.2	377.2	378.1	376.7
Aug	382.1	381.1	0	0
Oct	386.3	385.3	0	0
Dec	390.5	389.5	0	0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Oct	480.3	480.9	481.0	479.0
Jan	486.3	486.9	487.5	484.5
Apr	490.3	490.9	491.0	489.0
Jul	494.0	494.6	495.0	495.0
Oct	497.8	498.4	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Oct	507.6	503.0	506.0	502.0
Nov	510.4	506.1	0	0
Dec	514.3	510.0	515.0	509.5
Jan	517.2	512.9	0	0
Mar	525.6	521.3	526.5	521.0
May	533.1	528.7	534.5	529.3
Jul	540.8	536.3	540.5	536.5
Sep	548.6	543.9	548.0	548.0
Dec	558.8	554.8	559.5	555.5
Jan	563.5	558.5	0	0

INDICES				
REUTERS (Base: September 18 1931 = 100)				
	Oct 10	Oct 9	mnth ago	yr ago
	1857.1	1856.2	1906.7	1863.5
DOW JONES (Base: Dec. 31 1974 = 100)				
Spot	128.41	129.31	128.48	133.02
Futures	129.15	129.77	129.77	137.43

COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Oct	131.28	131.15	131.20	130.56
Nov	130.10	129.80	130.00	130.00
Dec	128.60	128.05	129.80	126.65

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Nov	20.31	20.17	20.40	20.25
Dec	20.17	20.00	20.25	20.09
Jan	19.90	19.75	19.98	19.84
Feb	19.69	19.58	19.76	19.66
Mar	19.50	19.40	19.59	19.48
Apr	19.39	19.26	19.48	19.37
May	19.33	19.16	19.33	19.22
Jun	19.12	19.04	19.21	19.10
Jul	19.04	18.95	19.10	19.01
Aug	18.93	18.87	18.97	18.92

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Nov	6005	5964	6030	5980
Dec	6050	6003	6070	6025
Jan	6000	5944	6025	5975
Feb	5865	5805	5890	5835
Mar	5635	5570	5650	5595
Apr	5445	5360	5445	5390
May	5290	5200	5290	5245
Jun	5180	5095	5175	5150
Jul	5110	5055	5110	5100
Aug	5130	5108	5130	5130

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Dec	965	993	993	975
Mar	992	997	998	978
May	1006	1016	1015	996
Jul	1028	1033	1022	1017
Dec	1072	1075	1075	1057
Mar	1095	1089	1097	1080

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	69.89	69.51	70.30	68.30
Mar	72.24	72.12	72.35	71.00
May	74.25	73.75	74.25	73.00
Jul	76.76	76.01	76.00	75.26
Sep	77.75	78.00	78.15	77.35
Dec	81.40	81.38	81.75	81.00
Mar	83.50	84.25	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jan	13.11	13.39	0	0
Mar	13.71	13.70	13.97	13.69
May	13.60	13.46	13.70	13.43
Jul	13.32	13.28	13.50	13.20
Oct	12.98	12.90	13.10	12.89
Mar	12.58	12.58	12.70	12.67

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Dec	73.58	73.49	73.70	73.26
Mar	74.73	74.70	74.80	74.45
May	75.50	75.42	75.55	75.35
Jul	75.64	75.35	75.65	75.20
Oct	69.90	70.15	70.10	69.75
Dec	66.83	66.65	67.00	66.75
Mar	67.75	67.50	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Nov	136.30	136.20	137.50	136.00
Jan	131.20	131.45	132.90	131.10
Mar	130.80	131.05	132.15	130.80
May	130.50	130.80	131.40	130.60
Jul	130.20	130.80	131.00	130.50
Sep	130.20	130.50	131.00	130.00
Nov	130.20	130.50	0	0
Mar	130.20	130.50	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Nov	552/2	552/2	557/0	551/0
Jan	564/4	563/6	569/0	564/0
Mar	577/2	576/2	580/6	577/0
May	587/2	586/4	590/4	587/0
Jul	592/2	590/6	596/4	591/0
Aug	592/4	589/4	596/0	592/0
Sep	575/4	575/4	581/4	575/4

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Oct	18.07	18.28	18.40	18.07
Dec	18.46	18.64	18.80	18.45
Jan	18.68	18.90	19.02	18.66
Mar	*19.10*	19.35	19.50	19.10
May	19.45	19.72	19.83	19.45
Jul	19.81	20.10	20.10	19.81
Aug	19.85	20.10	20.12	19.85
Sep	19.90	20.15	20.25	19.90

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Oct	186.6	186.2	187.5	186.0
Dec	181.2	180.2	181.8	180.7
Jan	179.9	178.7	180.4	179.2
Mar	178.7	177.7	179.2	178.2
May	177.8	176.7	178.2	177.0
Jul	177.0	175.8	177.5	176.2
Aug	176.0	175.5	176.5	175.5
Sep	175.0	174.5	176.0	175.0

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Dec	235/0	233/2	235/2	233/2
Mar	242/0	240/2	242/0	240/2
May	247/0	245/6	247/2	246/2
Jul	249/2	248/4	249/6	249/2
Sep	240/2	240/0	240/2	239/2
Dec	236/4	236/2	237/0	235/2

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Dec	404/2	407/0	407/0	403/0
Mar	401/4	403/2	404/2	400/4
May	384/4	385/2	386/4	383/0
Jul	354/6	355/0	358/0	353/0
Sep	359/0	359/0	359/0	358/0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Oct	73.20	72.85	73.22	72.77
Dec	74.85	74.60	74.87	74.46
Feb	74.77	74.57	74.80	74.42
Apr	74.87	74.70	74.90	74.65
Jun	71.95	71.85	72.02	71.70
Aug	70.42	70.30	70.50	70.35

LIVE HOGS 30,000 lb; cents/lbs				
	Close	Previous	High/Low	
Oct	47.62	47.22	47.80	47.25
Dec	46.05	45.82	46.32	45.65
Feb	45.62	46.82	46.10	45.50
Apr	42.97	43.17	43.35	42.82
Jun	47.65	47.82	47.75	47.40
Jul	48.00	48.00	48.00	47.70
Aug	46.62	46.80	46.65	46.50

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Feb	47.72	46.56	47.82	46.60
Mar	47.42	46.20	47.55	46.35
May	48.02	46.90	48.12	47.00
Jul	47.65	46.47	47.95	46.80
Aug	45.65	44.55	45.95	45.40

LONDON STOCK EXCHANGE

Equities unchanged in nervous session

THE UK stock market's collective difficulty in comprehending the events of the past week was accurately indicated yesterday by the final reading on the FT-SE Index – unchanged since the previous close, despite a moderately active trading session.

Attention is now focussed on this morning when Mr Nigel Lawson, the UK Chancellor of the Exchequer, will address the Conservative Party Conference and, hopefully, enlighten the financial markets on the Government's policies towards sterling and domestic interest rates.

The day started brightly as sterling made a better showing in early trading and share prices were steadier after the sharp fall suffered late in the previous session. The half point increase in Japanese discount rate had little immediate effect in a London equity market still looking for signs of an easing in US credit policies. However, with all the interest centred once again on the US dollar and sterling weaker at the end of the day, the UK stock market could not maintain its early promise.

After showing a rise of nearly 14 Footsie points soon after the start of trading, the market gradually lost its way and dipped into negative territory when Wall Street upset predictions by opening lower. The FT-SE ended the day at 2,218.8, the exact closing level recorded on Tuesday.

"The market at present is all about sentiment, and that has gone badly wrong," commented a senior dealer at Strauss Turnbull. The mood is generally bearish, although the prediction by a consultant strategist to BZW, the UK investment house, of a Footsie index at 1,800 some time next year is offset by optimism from Nomura, which has said that the index "could be 3,200 going into the next election."

While the stock market continued to keep a close eye on sterling yesterday, the overall view was that the current uncertainties need some statement from the Chancellor and also perhaps from the Prime Minister, who will speak at the Party Conference tomorrow. In the meantime, market analysts were wary of commenting on the potentially beneficial benefits for export stocks of the slide in sterling since last week's news of a £2bn deficit on UK trade in August.

Some pessimists noted that the Prime Minister's speech falls on "Friday the 13", and a mite too close to the anniversary of the 1987 Crash for comfort; the weather reports were scanned for any return of the hurricane which preceded the Crash in the UK stock market.

Seaq volume remained relatively high, at 503.2m shares against the 523.1m of the previous session. Some traders identified institutional selling into the early morning rally, after which trading seemed to be largely between market making firms.

Account Dealing Dates			
First Dealings:	Oct 2	Oct 16	Oct 30
Option Declarations:	Oct 12	Oct 26	Nov 9
Last Dealings:	Oct 13	Oct 27	Nov 10
Account Day:	Oct 23	Nov 6	Nov 20

*New time dealings may take place from 9.00 am two business days earlier

Tactical fight in Ferranti

Action in Ferranti, the beleaguered defence electronics group, was virtually non-existent for much of the session, but the share price erupted in the late afternoon when the market became aware that Hoare Govett was bidding 56p a share for up to 20m shares.

Some hefty deals were concluded before another securities house, Kleinwort Benson, moved in and hoisted its bid price to 57p a share. This killed off the action, but not before 21m shares had changed hands. The Ferranti price, bid up to 57½p at one point, came back to close a net 1¼ higher at 56½p.

Hoare Govett is broker to British Aerospace which, on Tuesday, said it was looking at the possibility of mounting a joint bid with Thomson-CSF, the French group, for Ferranti.

Electronics specialists continued to take the view that there is now a floor under the Ferranti share price. "If indeed British Aerospace have increased their holding, then any other potential bidders will have to go above this level, and a price above the pre-suspension 73½p looks more possible with every passing day," said one.

Another observer said that the GEC/Siemens duo would be taking a hard look at the situation, not least because it inherited a 2.2 per cent stake in Ferranti from Plessey; "one wonders how happy Lord Weinstock will be to see Thomson picking up such a big slice of the UK defence business," he said.

Dalgety popular

Dalgety, the food manufacturer, moved briskly ahead in early trading on news that it had finally disposed of Gill and Duffus, its commodities division.

Analysts said Gill and Duffus had diluted Dalgety's earnings and had possibly deterred potential bidders. Last week Como International, the investment vehicle controlled by Mr Robert Holmes à Court and Société Nationale Elf Aquitaine, announced it had cut its stake in Dalgety to less than 5 per cent.

"I'm glad they've done this [sold Gill]. In investor relations terms it was a disastrous acquisition," said Mr Richard Workman of Hoare Govett. The disposal would increase Dalgety's break-up value to 525p from 510p, he said, and had prompted Hoare Govett analysts to raise their pre-tax profit estimate slightly for this financial year to £122m from £121m.

But unless Dalgety tried to make new acquisitions or itself became the subject of renewed takeover speculation its share price would be hard to defend on longer-term basis at current levels, he said.

Mr Les Pugh of Salomon Brothers noted that over the past five years, Dalgety's earnings-per-share growth had been half that of the food manufacturing sector and that further "radical surgery" may be required to close that gap. "That means the share price could stagnate until we get evidence of earnings growth or new bid speculation," he said. These longer-term doubts pushed Dalgety off its highs and it closed up 4 at 413p.

NY sells Reuters

New York turned sellers of Reuters on Tuesday night in the wake of news, ignored in the UK, that a project to build dealing rooms systems at County NatWest WoodMac's offices in London had been abandoned.

A newspaper report spoke of interim systems having to be installed at no charge to County as an interim measure.

The shares opened weakly and fell further, bottoming at 908p before recovering some ground to end at 915p, still a net decline of 26. Volume, at 1.1m shares traded, was particularly good for the stock.

The oil sector gave another clear display of its defensive qualities, with the majors attracting strong buying again, helped by a couple of seminars on the sector in the City. Sector specialists said the benefits of a strong oil price – November Brent added 25 cents at $18.65 a barrel, and has recently moved up sharply in sterling terms reflecting the weakness of the UK currency – have not been fully appreciated by the market.

BP were well supported late in the day, closing 4½ higher at 306¼p. Shell finally encountered some profit-taking after the strong recent showing, the shares dipping 2 to 444p.

Dealers said LASMO had been keenly bought and closed 7 higher at 512p, on expectations of drilling news in the near future.

Ultramar, widely regarded throughout the City as one of the undervalued stocks in the oil sector, were chased up to 329p, before closing a net 3 higher at 328p; Panmure Gordon, the stockbroker, came out yesterday with a buy recommendation on the stock. It highlighted the company's net asset value of 492p, the stability of its earnings from Indonesian gas, and its active exploration programme. Mr Stephen Thomas, the Panmure oil analyst, said his target for the Ultramar share price was 400p.

The speculation of imminent moves concerning Burmah/Castrol/Premier/SHV tended to run out of steam yesterday. Dealers reckon that SHV has probably increased its stake in Burmah by a modest amount from the current 4.3 per cent (or 7.5m shares) level, "but let's wait and see if there is any big bid in the wings." Regarding Calor, the talk yesterday was of fading bid hopes with turnover shrinking to 69,000 shares. Burmah shares were 2 firmer at 637p on 663,000 while Calor edged up 5 to 431p. Premier held at 101½p.

Shares in Vickers, edged forward, on the news that IEP Securities, controlled by Sir Ron Brierley, the New Zealand based businessman, had increased its stake in the company and now owned 13.4 per cent of Vicker's shares.

Vicker's shares closed at 239p, up 3½ on the day.

Analysts however do not believe Sir Ron is likely to make a bid for Vickers reasoning that he faces two obstacles were he to make such a move.

These are that the Government might be sensitive to an overseas buyer acquiring Vickers in view of its defence contracts, and the fact that under a previous agreement, the Rolls-Royce and Bentley car marques have to return to the original holder in the event of Vickers being taken over.

Mr Ian Low analyst at Laing and Cruickshank said: "Sir Ron is probably moving into the stock to make money and then move out again."

News of an order for 12 Airbuses, for which British Aerospace builds the wings, failed to lift the markets poor view of BAe's plans of mounting a joint bid for Ferranti with Thomson-CSF, the French group. The shares closed down 3 at 582p.

Among motors, Jaguar continued to move in reverse gear on speculation that Ford, which has said it wants to take a stake in Jaguar may be in talks with Saab-Scania about acquiring its car division. More than 5m shares were traded as the Jaguar share price fell 17 to 636p.

In overseas traders, Polly Peck fell back on the news that the company was to spend a total of £13.8m to buy out the minority in Polly Peck Far East, its Hong Kong quoted subsidiary. Shares closed off 4 at 302p. Ulster TV suffered in the wake of the cautious statement that accompanied last week's figures. The shares fell 5 to 128p. Analysts, however, continued to rate the company highly in the light of its cash pile and the fact that it is more likely than most independent TV companies to keep its franchise when it comes up for renewal at the end of 1992. The award for Northern Ireland is especially sensitive politically.

The sale of Granada's retail venture Laskys for £8.9m to Comet, owned by Kingfisher, helped Granada add 3 in the last hour of trading to end 3 better overall at 322p. A County NatWest WoodMac recommendation to switch out of Thorn into Granada also helped.

Kingfisher also closed 3 better, at 284p. The share had been as high as 208p in what dealers described as a technical bounce after recent sharp fall.

Other leading stores also consolidated after recent weakness. Two of the most volatile, Burton and Next, posted penny gains to 203p and 99p respectively.

Body Shop, often classed with Burton and Next as a "concept store" fell steeply. The shares touched 350p before closing at 357p, down 30 on the day. A one-third fall in profits at the interim stage knocked Austin Reed hard. The figures were below worst expectation and prompted downgradings from analysts. The "A" shares ended 28 off at 197p.

Doubled profits at Lloyds Chemist did not do the trick either and the shares fell 15 to 193p. Some dealers pointed to a slightly larger contribution than forecast from properties, seen as particularly vulnerable in a time of high interest rates, but others said the property contribution remained small. "It doesn't matter how good your results are in second line stores today," said one.

One of the few bright spots was Ratners, up 3 at 250p. It was helped by the extraordinary meeting's approval of the creation of dollar denominated preference shares. "This means there should not any cash calls in the near future," explained an analyst.

Analyst tend to exempt Ratners from their bearish assessments of the stores sector on the grounds that its products are cheap, and therefore should make for resilient sales in hard times, and that competition is fragmented, especially in the US. Mr Nick Bubb, the analyst at Morgan Stanley who took all stores of his buy list after the last set of trade figures, upgraded Ratners, WH Smith and Boots from "hold" to "look to buy." The latter two were at investor presentations at Morgan yesterday. WH Smith "A" shares and Boots ended the day a shade lower on 306p and 273p respectively.

Sears also edged lower as Hoare Govett Hoare trimmed its forecast for current year profits from £225m to £220m and for next year from from £245m to £235m. However, Hoare took the stock off their sell list, saying it had been persuaded that cost cutting would enable Sears to raise its dividend by 5 per cent, making the current year's yield 6¼ per cent.

Tate & Lyle also benefited from contributions from international divisions. Analysts commented that most of its borrowings were in the US where interest rates were falling. The shares added 5 at 260p.

STC remained under a cloud, the shares retreating to 297p at one point before stabilising to close a net 4 off at 299p; turnover came out at 4m. There were suggestions in the market that Hoare Govett, the company's brokers, had cut their profits forecasts for the group. "Not so," said Hoare who confirmed they had met STC on Tuesday.

British Telecom were 4 higher at 262p on 7.1m after a presentation to analysts on the cellular business; on Tuesday McCaw, 22 per cent owned by Telecom, announced it had altered its offer for LIN Broadcasting, the US cellular group, giving LIN's cellular businesses a value of $295 per head of population. The increased "per pop" valuation directed further interest towards Racal Telecom, which rose 3 more to 381p, although one electronics analyst took the view that pushing Racal Telecom up on US cellular values "is getting just a trifle unoriginal."

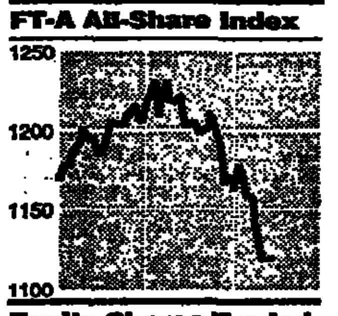
Among advertising agencies, Geers Gross plunged 11 to 50p ahead of interim figures due on Tuesday.

In a statutory filing made in Washington on Tuesday, Southeastern Asset Management, a US investment company which owns more than 10 per cent of Saatchi and Saatchi said it had received approaches from "third parties" about "possible restructuring transactions" involving the UK company.

This combined with with a non-committal statement from oneper cent stakeholder Fininvest, owned by Mr Silvio Berlusconi, the Italian media entrepreneur, to stimulate sharp swings in Saatchi's share price. The shares settled 15 better at 347p.

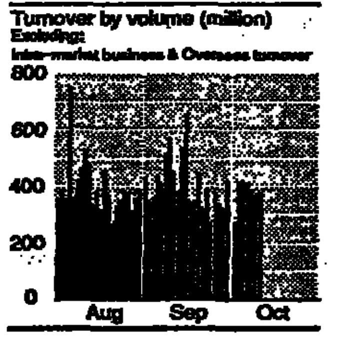
■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 23

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: intra-market business & Overseas turnover



FINANCIAL TIMES STOCK INDICES

	Oct 11	Oct 10	Oct 9	Oct 6	Oct 5	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	83.83	83.91	84.18	84.61	84.14	88.84	89.29 (8/2)	83.75 (14/6)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	94.23	94.88	95.00	95.21	95.01	97.47	99.59 (15/3)	94.23 (11/10)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1797.3	1798.7	1822.9	1857.8	1866.2	1471.9	2008.6 (5/9)	1447.8 (3/1)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	206.2	208.2	206.2	208.0	209.2	176.0	215.2 (28/9)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2218.8	2218.8	2247.0	2277.5	2281.6	1814.3	2426.0 (5/9)	1782.8 (3/1)	2443.4 (16/7/87)	986.9 (23/7/84)
Ord. Div. Yield	4.54	4.54	4.48	4.40	4.38	4.71				
Earning Yld %(full)	10.93	10.93	10.76	10.57	10.53	11.87				
P/E Ratio(Net)(☆)	11.03	11.03	11.20	11.40	11.44	10.21				
SEAQ Bargains(5pm)	30,419	28,298	28,768	27,459	25,078	22,614				
Equity Turnover(£m)†	-	876.27	911.21	1048.40	924.67	1146.37				
Equity Bargains†	-	26,310	28,340	26,553	24,653	23,395				
Shares Traded (ml)†	-	395.7	379.4	397.7	406.0	430.3				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ☆ Nil 10.94

Ordinary Share Index, Hourly changes — Day's High 1811.1 — Day's Low 1791.3

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1802.8	1807.7	1797.1	1794.4	1795.7	1798.5	1797.6	1793.7

FT-SE, Hourly changes — Day's High 2232.5 — Day's Low 2213.3

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2223.5	2230.7	2220.2	2217.0	2218.8	2222.9	2221.3	2215.4

GILT EDGED ACTIVITY

Indices*	Oct 10	Oct 9
Gilt Edged Bargains	98.9	98.4
5 – Day average	88.9	86.9

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT Indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request.
London report and latest Share Index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
ASDA Group	7,700	159	+2	Courtaulds	1,300	330	-4	LASMO	269	512	+7	Saatchi & Saatchi	2,000	347	+15
Abbey National	6,500	146	-1	Dalgety	1,300	413	+4	Lonrho	2,500	268	-3	Sainsbury	1,420	252	+2
Allied-Lyons	1,700	492	-2	Dixons	1,200	124		Lucas	773	629	+5	Scott & Newcastle	1,300	369	+2
Amstrad	3,400	57		Eng. China Clays	595	414	-4	MB Group	258	185	-1½	Sears	8,100	109	-1
Argyll Group	2,800	215	+1	Enterprise Oil	613	594	+7	MEPC	218	514	+4	Sedgwick	537	256	-2
Ass. Brit. Foods	214	396	-1	Fisons	1,200	327	-2	Marks & Spencer	2,500	185	+1	Shell Transport	5,300	444	-2
BAA	2,400	339	+2	General Accident	461	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BAT Inds.	2,100	825	-4	General Elec.	6,600	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BET	2,300	260	+6	Glaxo	1,600	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BICC	278	470	-3	Globe Inv.	269	179½	-3	Nat. West. Bank	4,700	315	-2	SmithKline Beecham	1,400	564	+5
BOC	478	486	+4	Glynwed Int.	549	244		Next	1,800	99	+1	Smiths Industries	1,280	270	+2
BPB Inds.	4,100	226	-3	Granada	2,300	322	+3	Northern Foods	52	313	+1	Standard Chartered	686	513	-3
BTR	2,400	430	+1	Grand Met.	3,682	564	+2	Pearl	917	634	-12	Storehouse	815	130	-1
Barclays	1,200	580		GUS A	281	1035	-3	Pearson	658	682	-6	Sun Alliance	989	786	-5
Bass	1,800	975	+1	GRE	2,300	220	-1	P & O	1,600	628	-2	T&N	1,300	198½	-1½
Blue Circle	2,700	215		GKN	581	384		Pilkington	2,400	211	-6	TI Group	291	426	+7
Boots	4,400	279	-½	Guinness	4,384	600	-8½	Polly Peck Intl.	498	302	-4	TSB	1,180	109½	-½
Brit. & Comm.	498	131	-4	Hammerson 'A'	363	786	-11	Prudential	2,900	184½	+½	Tarmac	3,050	295	-4
Brit. Aerospace	1,100	582	-3	Hanson	4,300	213½	-½	RHM	619	437	-1	Tate & Lyle	692	260	+5
British Airways	1,600	195	-4	Harrisons & Cros.	1,380	156	+1	RMC	804	633	-7	Taylor Woodrow	336	267	-3
British Gas	7,800	203¼		Hawker Siddeley	1,490	633	+3	RTZ	1,300	538	+1	Tesco	2,400	193	+½
British Land	1,000	338		Hillsdown Hldgs	3,865	274	-3	Racal	3,938	236		THORN EMI	2,750	765	-12
BP	11,600	306¼	+4½	[illegible]	879	208		Rank Org.	487	876	+12	Trafalgar House	1,400	336	+2
British Steel	8,300	124½	-1½	Imp. Chem.	1,808	1171	+15	Reckitt & Colman	86	1131	+1	Trusthouse Forte	1,100	307	-2
British Telecom	7,050	262	+4	Inchcape	144	268	-1	Redland	581	489	-17	Ultramar	1,200	328	+3
Burmah Oil	663	637	+2	Jaguar	5,800	636	-17	Reed International	836	395	-2	Unilever	769	649	+2
Burton	4,900	203	+1	Kingfisher	1,400	284	+3	Reuters	1,180	915	-26	United Biscuits	2,450	353	-4
Cable & Wireless	2,000	524	-4	Ladbroke	3,108	384½	-1½	Rolls Royce	4,400	173¼	+3	Utd. Newspapers	353	436	+3
Cadbury Schweppes	1,800	349	-1	Land Securities	1,400	517	+5	Rothmans	782	643	+7½	Wellcome	272	629	+7
Carlton Comm.	999	849	-8	Laporte	630	465	+5	Royal Bk of Scotland	628	165		Whitbread 'A'	584	343	-5
Commercial Union	2,100	446	-4	Legal & General	862	334	-5	Royal Insurance	1,800	489		Williams Hldgs.	1,600	226	+20
Cookson	1,800	313	-3	Lloyds Bank	1,700	379	+9	STC	4,000	299	-4	Wimpey	250	237	+1

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (85).
AMERICANS (17) CANADIANS (8) BANKS (3) ELECTRICALS (3) FOODS (2) HOTELS (1) INDUSTRIALS (6) Astra AB, Elders IXL, Grafton, Jardine, St. Gobain, INSURANCE (5) MOTORS (1) PAPERS (1) TRUSTS (12) OILS (9) MINES (6).
NEW LOWS (223).
BRITISH FUNDS (4) LOANS (3) BANKS (5) BREWERS (1) BUILDINGS (48) CHEMICALS (8) STORES (21) ELECTRICALS (27) ENGINEERING (16) FOODS (1) HOTELS (2) INDUSTRIALS (55) Aaronson Bros., Alumasc, Apollo Watch Prods., Armour Tst., Assoc. Energy, Avon Rubber, BLP, Beazer, Beckenham, Bestwood, Black (P.), Brammer, Bridport-G., Business Tech., CMS Pack. New (¼ 1989 Div.), Cannon St. Inv., Cent. Sherwood, Coloroll, Copymore, Corton Beach, Creighton Nat., Delaney, Dolphin Pack., Eleco, Eng. China Clays., Fenner (J.H.), Fobel Int'l., Granada, Hanson Wrnts., Harris (Ph.), Hyman, Johnston Grp., Jourdan (T.), Just Rubber, Kalon, Low & Bonar, Mainmet, Metal Closures, Minty, NMC, NMW Comp., Nobo, Norcros, Quotient, Rexmore, Sale Tilney, Savage, Scot. Hert. Tst., Silentnight, Sycamore, Tamaris 8½pc Cm. Pf., Walker Greenbank, Welpac, West Inds., Williams, Do. 8p Cv. Pf., Do. 5¼pc Cv. Pf., Willis, Worcester, Yale & Valor, INSURANCE (1) LEISURE (12) MOTORS (12) PAPERS (18) PROPERTY (28) SHOES (1) TEXTILES (14) TOBACCOS (1) TRANSPORT (8) TRUSTS (15) OILS (4) OVERSEAS TRADERS (1) MINES (4) THIRD MARKET (8).

APPOINTMENTS

TI Group managing director

■ TI GROUP has appointed Mr Sidney Taylor as managing director - operations, a new post, from January 1, 1990. A member of the group main board since 1985, he is president and managing director of Bundy International, TI's largest business.

■ LAZARD BROTHERS has appointed Mr Anthony Northrop as a director from October 30.

■ ISA INTERNATIONAL, a specialist distributor of branded consumables for information processing equipment, has appointed Mr Keith Edwardes to the main board. He joined ISA in April as commercial director.

■ Mr David Acland is relinquishing his executive duties as chairman of BARCLAYS DE ZOETE WEDD INVESTMENT MANAGEMENT on October 31 when he retires. He will remain non-executive chairman of BZWIM and non-executive vice chairman of BZW Property Investment Management. Mr Donald Brydon, BZWIM managing director, will assume responsibility as head of asset management division of Barclays de Zoete Wedd from November 1.

■ TAKARE has made the following main board appointments. Mr Deverok Pritchard has been appointed deputy chairman. Mr David Pegg, senior partner of Gisby Harrison since 1983, has been made a non-executive director.

■ Mr Graham Wickenden has joined DELTA as aquisitions manager. He was with the corporate finance division of Kleinwort Benson.

■ Mr Howard Phelps retires from the board of THE PENINSULAR AND ORIENTAL STEAM NAVIGATION COMPANY on October 20, and as chairman of Earls Court & Olympia, where he is succeeded by Mr Peter Ford, a P&O main board director who retains his existing responsibilities.

■ Mr Michael Harris has been appointed chief executive of Firstdirect, direct banking division of MIDLAND BANK. He was a financial services consultant. Ms Jan Smith becomes marketing director; Mr Alan Cull, operations director; and Mr Kevin Newman, systems director.

■ Mr John Bird has been appointed UK director for HURLIMAN SWISS LAGER. He was sales manager with Courage.

Mr Paul Seymour (above) has been appointed chief executive of LAURENTIAN HOLDING COMPANY, formed by the merger of Trident Life and Imperial Life of Canada. He was group director, Europe, for Abbey Life and a main board director of Lloyds Abbey Life of which he was deputy chairman. He takes up his appointment in mid-November.

■ TONKA has appointed Mr Peter Waterman to the new post of general manager, European strategic planning and export sales. Mr Denis Horton has been promoted to managing director, Tonka (UK), from director of European marketing and operations. He is succeeded by Mr Andy Fergusen, who is replaced as group sales director, Tonka (UK), by Mr Dave Turner.

■ WILDE SAPTE, City solicitors, has appointed Mr Andrew Taylor to the new post of director of marketing.

■ AYNSLEY CHINA has appointed Mr Lindsay Mackinley as a non-executive director. He is a retired executive director of Rowntree.

■ SEQUENT COMPUTER SYSTEMS has appointed Mr John McAdam to the new post of UK sales director. He was at Data General.

■ Mr Andrew Heritage, Mr John Connolly and Mr William Gibson have been appointed directors of R.P. MARTIN. Mr Martin Plumb has been appointed a director of R.P. Martin Deposits.

■ RACAL-REDAC has appointed Mr Leif Möllerström as director of Northern European operations.

■ YORKSHIRE BANK has created a card services division, and appointed Mr John C. Howley as controller (card services), and Mr Philip Lazenby as general manager's assistant with responsibility for a new debit card within the SWITCH organisation and ATM reciprocity within the LINK network.

■ SCHLUMBERGER Industries Energy Management, Cambridge, has appointed Mr Julian Shaw as director of sales. He was sales director at Solartron Instruments, a Schlumberger subsidiary.

FT UNIT TRUST INFORMATION SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
American Income	6	59.20	59.78	63.60	+0.62	4.31
Gilts & Fixed Int	6	107.6	107.6xd	114.2	-0.10	8.76
High Inc Equity	6	130.5	133.2xd	141.8	-2.10	4.48
Worldwide Bond	6	206.8	206.8	219.1	+1.00	4.84
Capital Growth						
American Growth	6	214.4	216.4	230.3	+1.70	0.83
Asian Pacific	6	119.6	121.8	129.6	+0.80	1.00
Assets & Earnings	6	156.3	156.3	167.2	-2.80	2.21
Capital Reserve Acc	0	86.81	86.81	86.88	-0.2	4.60
Capital Reserve Inc	0	77.06	77.06	77.12	-0.2	5.19
Comdty & Energy	6	113.3	116.4xd	123.9	+0.20	1.53
1992 Enterprise	6	59.43	60.58	64.45	-0.09	1.99
Euro Capital Acc	6	100.2	100.8	107.3	-0.40	0.72
Euro Capital Inc	6	96.56	97.29	103.5	-0.40	0.72
General	6	173.8	173.8xd	185.9	-2.30	2.69
International	6	57.15	58.04	61.75	-0.06	0.81
Japan	6	123.7	124.7	132.7	-0.30	0.00
Mastertrust	6	93.71	93.71	100.30	-0.30	1.69
UK Growth Acc	6	190.60	190.60xd	203.90	-4.70	1.37
UK Growth Dist	6	125.8	125.8xd	134.6	-3.10	2.08
US Emerging Cos	6	58.88	60.39xd	64.25	+0.45	0.00
Income & Growth	6	297.7	303.8	323.2	-4.20	3.17
Ethical	6	47.30	47.30	50.59	-1.04	1.98

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Amer Inc & Growth	5¼	35.35	35.35xd	37.74	+0.30	2.67
European	5¼	77.76	77.86	83.12	-0.33	0.00
European Income	5¼	73.77	73.77xd	78.75	+0.12	2.37
Exempt	1	775.6	775.6xd	806.6	-4.80	1.91
Extra Income	5¼	43.19	43.19xd	46.11	-0.63	4.52
F East Emerg Ecos	5¼	61.17	61.42	65.79	+0.89	0.32
Fund Inv Tst	5	128.6	130.0xd	138.7	-1.10	1.94
Do Accum	5	200.2	202.4xd	216.1	-1.70	1.96
Gilt & Fixed Int	5¼	20.94	21.70xd	23.17	-0.01	10.38
Income & Growth	5¼	71.04	71.04xd	75.84	-1.20	3.89

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administration and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

Waverley Unit Tst Mngmt Ltd (1000)F
13 Charlotte Sq, Edinburgh 031-225 1551

Wellington Fund Mngrs Ltd (1200)F
2, London Bridge, SE1 01-407 4404

Wessex Asset Management (1330)F
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432

Whittingdale Unit Tst Mngmt Ltd
2 Honey Lane, London EC2V 8BT 01-606 3132

Wiltshire Financial Services Ltd (0905)F
PO Box 515 Austin Friars, London EC2 01-588 7511

Windsor Trust Mngrs Ltd (1200)F
83 Kingsway, London, WC2B 6SD 01-405 8331

Wright Seligman Fund Mngrs Ltd (1700)F

The Yorkshire Unit Tst Mngrs Ltd (1100)F

OTHER UK UNIT TRUSTS

INSURANCES

Albany Life Assurance Co Ltd—Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Intl Fxd Int Fd Acc(z)	209.0	220.0	+0.1	—
Fixed Int Acc(z)	343.9	362.0	-0.5	—
Gilt Money Fd Acc(z)	240.8	253.4	+0.1	—

Citicorp British National

City of Edinburgh Life Assurance

City of Westminster Assurance

Clerical Medical/Fidelity International

Clerical Medical Investments Group

Colonial Mutual Group

Combined Insurance Co of America

Commercial Union Group

Cornhill Insurance PLC

Criterion Assurance Group

Crown Financial Management Ltd

Crusader Insurance Plc

Eagle Star Insurance Co Ltd

Equitable Life Assurance Society

Equity & Law

FS Assurance Limited

Family Assurance Society

Friends' Provident

GT Management Ltd

General Accident Linked Life Assce Ltd

General Portfolio Life Insce Plc

Assicurazioni GENERALI SpA

Gresham Unit Assurance Ltd

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hearts of Oak Insurance Group

Hill Samuel Life Assce. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Imperial Life Assurance Co of Canada

Irish Life Assurance Co Plc

Irish Life Assurance Co Plc—Contd.

The LAS Group

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General (Unit Assur) Ltd

Legal & General (Unit Pensions) Ltd

Liberty Life Assurance Co Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Life and M & G Pensions

M&M Assurance(z)

Manchester Unity Assurance

ManuLife Group PLC

Merchant Investors Assurance Co Ltd

Midland Life Limited

Municipal Life Assurance Ltd

NEL Britannia Assce Co Ltd

NEL Britannia Assce Co Ltd—Contd.

NEL Pensions Ltd

NM Life Assurance Ltd

National Financial Management Corp PLC

National Mutual Life

National Provident Institution

Norwich Union Asset Management Ltd

Norwich Union Life Insurance Soc.

Pearl Assurance (Unit Funds) Ltd

Phoenix Assurance Co Ltd

Pioneer Mutual Insurance Co Ltd

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

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Premium Life Assurance Co Ltd

Prudential Holborn Pensions Ltd—Contd.

Prudential Pensions Limited

Scottish Equitable Life Assce. Soc.—Contd.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Skandia Life Assurance Co Ltd—Contd.

Standard Life Assurance Company

Sun Alliance Insurance Group

Sun Life Unit Assurance Ltd

Sun Life of Canada (UK) Ltd

Swiss Life Pensions Ltd

TSB Life Ltd

Target Life Assurance Co Ltd

Target Life Assurance Co Ltd—Contd.

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Westgate & General Assurance Soc

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

Property Equity & Life Ass. Co

Property Growth Assur Co Ltd

Providence Capital Life Assc. Co Ltd

Provident Life Assoc Ltd

Provident Mutual Life Ass. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pensions Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assce. Soc.

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IOM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
99	95	Treas 9pc 1986-89	99	.....	-	-
99	98	Exch 10¼pcCv '89	99	.....	10.28	13.44
101	99	Treas 13pc 1990‡‡	99	.....	13.06	14.09
132	124	Treas 2pc IL '90 (84.6)	132		2.09	9.98
99	98	Exch 11pc 1990‡‡	98	.....	11.13	14.10
101	99	Exch. 12½pc 1990	99	.....	12.59	14.25
95	91	Treas. 3pc 1990	95	.....	3.14	11.58
97	95	Treas 8¼pc 1987-90‡‡	96	.....	8.54	13.56
98	95¼	Treas. 8pc Cv 1990 ‡‡	96	+	8.39	13.63
98	96	Treas 10pcCv 1990	96	+	10.34	13.52
93	87	Exch 2½pc 1990	92	+	2.71	10.15
101	98	Treas 11¾pc 1991	98	+	11.96	13.21
93	89	Funding 5¾pc '87-91‡‡	92	-	6.29	11.65
90	86	Treas 3pc 1991	89	-	3.36	10.52
100	95½	Treas 10pc Cv '91 ‡‡	95	.....	10.45	12.80
101	96	Exch. 11pc 1991	97	+	11.34	12.71
94	91	Treas. 8pc 1991	91	+	8.76	12.68
106	100	Treas 12¾pc 1992‡‡	101	+	12.61	12.12
99	95	Treas 10pc 1992	95	.....	10.46	12.19
94	90	Treas. 8pc 1992 ‡‡	91	-	8.77	12.18
100	96	Treas 10½pc Cv 1992‡‡	96	+	10.85	12.03
85	82	Treas. 3pc 1992	83	-	3.60	10.25
105	100	Exch. 12¼pc '92	100	+	12.17	11.95
109	103	Exch 13½pc 1992	104	.....	12.97	11.81
94	90	Treas 8¼pc 1993	90	+	9.09	11.64
100	95	Treas 10pc 1993‡‡	95	+	10.45	11.51
108	102	Treas 12½pc 1993‡‡	102	-	12.14	11.48
88	84	Funding 6pc 1993‡‡	84	+	7.12	11.02
113	107	Treas 13¾pc 1993‡‡	107	-	12.79	11.37
94	89	Treas 8½pc 1994	90	.....	9.42	11.39
117	111	Treas 14½pc 1994‡‡	111	-	13.03	11.17
113	107	Exch 13½pc 1994	107	.....	12.57	11.36
100	95	Treas. 10pc Ln. 1994‡‡	95	.....	10.45	11.20
110	104	Exch. 12½pc 1994	104	-	12.00	11.34

Five to Fifteen Years

BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

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AMERICANS—Contd

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
37¼	24¼	Gen. Elect. 63c	37⅝	+⅛	$1.64	–	2.8
579p	460p	♦General Host Corp $1	515p	+29	30c	–	3.7
39⅛	18¼	Gillette $1	31⅞	–⅛	96c	–	1.9
987p	601p	Gt American Bank Bk $1	740p	–48	20c	–	1.7
23⅝	16⅞	Greyhound $1½	22⅞	–⅛	$1.32	–	3.7
14½	847p	Hasbro Inc 50c	14½	+¼	16c	–	0.7
57½	32¼	Honeywell $1½	53⅞xd	+⅛	$2.10	–	2.5
22¼	15¼	Houston Inds.‖	22¼	+¼	$2.96	–	8.4
76⅞	63⅞	IBM Corpn $1¼	69⅞xd	.....	$4.84	–	4.4
60p	45p	♦Image Storage/R.Sys.1c	55p	.....	–	–	–
32⅛	18¾	Ingersoll-Rand $2	31⅛xd	.....	$1.20	–	2.4
33¼	22½	Lockheed Crpn. $1	31¼xd	+⅛	$1.80	–	3.6
22⅝	15⅞	Lone Star Inds $1	19⅛xd	–⅛	$1.90	–	6.2
27⅞	17½	Louisiana Land 15c	26¼xd	+⅞	$1.00	–	2.4
20½	11½	Lowe's 50c	20½	+¼	48c	–	1.5
28⅞	15⅞	Manuf Hanover $1	28⅛	–⅞	$3.28	–	7.4
22⅝	13⅞	Merrill Lynch $1	20⅞	+⅞	$1.00	–	3.1
2477p	1910p	♦Molex Inc	2477p	+51	3.2c	–	–
30⅞	18⅛	Morgan (JP) $2½	30⅛xd	+⅛	$1.66	–	3.5
112⅞	96⅞	Morris (Philip)	112⅞	.....	$4.50	–	2.5
54½	36⅛	NYNEX $1	53⅛	–⅛	$4.36	–	5.2
44p	20p	N'wide Legal Serv.‖	30p	.....	–	–	–
24⅞	18¼	PHH Corp. ‖	24½	+⅛	$1.12	–	2.9
259p	179p	♦Pacific Agr ‖	200p	–4	–	–	–
27¼	19	Pacificorp $3¼	27xd	+⅛	$2.76	–	6.2
30¼	16⅞	Pacific Telesis 10c	29¼	+⅛	$1.88	–	4.1
22⅞	15¼	Pall Corp. 25c	22	–¼	48c	–	1.4
55⅛	39⅞	Pennzoil 83 1/3c	53⅛xd	+⅛	$3.00	–	3.6
42¼	28⅛	Quaker Oats $5	40¼	+⅞	$1.20	–	1.9
32⅛	23½	Rep NY Corpn $5	31⅞xd	+⅛	$1.28	–	2.6
16	11⅞	Rockwell Intl. $1	15⅞xd	+⅞	78c	–	3.1
29½	22	Sears, Roebuck 75c	27⅛	+⅛	$2.00	–	4.6

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INSURANCES

LONDON SHARE SERVICE

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LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING — Contd

PROPERTY

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES — Contd

TOBACCOS

TRANSPORT

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND — Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES — Contd

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4Xa)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or -
Albany Inv 20p.... v	96	......
Craig & Rose £1.. v	830	......
Finlay Pkg. 5p.... v	75xd	-1
Holt (Jos) 25p.... v	1355	-3

IRISH

Stock	Price	+ or -
Cap. 8½% Ln. 1991	£97¼	......
9pc Cap Ln. 1996	£97	-1½
Fin. 13% 97/02	£118	......
Arnotts	450	......
Carrol (P.J.)..... v	150	......
Hall (R. & H.)	180	......
Heiton Hldgs....... v	92	......
For Irish Ropes see IRG		
IRG	228xd	......
United Drug	135	-3

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	38
Amstrad	11
BAT	80
BOC Grp	42
BSR	6½
BTR	32
Barclays	42
Blue Circle	24
Boots	25
Bowaters	44
Brit Aerospace	52
British Steel	7½
Brit. Telecom	21
Burton Ord	18
Cadburys	46
Charter Cons	48
Comm Union	32
Courtaulds	38
FKI	14
FNFC	22
Gen Accident	85
GEC	20
Glaxo	110
Grand Met	48
GUS 'A'	90
Guardian	18
GKN	34
Hanson	16
Hawker Sidd	60
ICI	108
Jaguar	23
Ladbroke	28
Legal & Gen	26
Lex Service	33
Lloyds Bank	29
Lucas Inds	58
Marks & Spencer	15
Midland Bk	30
Morgan Grenfell	24
Nat West Bk	25
P & O Dfd	55
Plessey	22
Polly Peck	26
Racal Elect	20
RHM	42
Rank Org Ord	80
Reed Intnl	34
STC	32
Sears	10
Smithkline Bchm. A	50
TI	38
TSB	10
Tesco	14
Thorn EMI	58
Trust Houses	24
T&N	18
Unilever	46
Vickers	18
Wellcome	42

Property

Brit Land	32
Land Securities	52
MEPC	50
Randsworth	28

Oils

Brit Petroleum	21
Burmah Oil	58
Calor	35
Charterhall	2½
Premier	9
Shell	32
Ultramar	26

Mines

Cons Gold	150
Lonrho	30
RTZ	48

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Firm dollar and nervous pound

A FIRM dollar, and a rise in the Bank of Japan's discount rate, helped divert attention away from sterling on the foreign exchanges yesterday.

The pound remained nervous, as the Bank of England continued to defend the currency, through sales of dollars and European Currency Units.

The US Federal Reserve and European central banks joined in a round of co-ordinated intervention to sell dollars, but this failed to prevent a rise by the US currency. Earlier in Tokyo the Fed and Bank of Japan sold dollars, while the Japanese central bank also tried to depress the US unit with a rise of 0.5 per cent to 3.75 per cent in its discount rate.

At the close of trading in London the dollar had not established itself above resistance levels of Y145 and DM1.92, but sentiment continued to favour the currency. The firm dollar continued to reflect an interpretation of a speech in Moscow on Tuesday by Mr Alan Greenspan, chairman of the Federal Reserve Board. This was taken to indicate that the Fed was in no hurry to cut US interest rates.

Dealers in London suggested that the speech had probably been misinterpreted however, and that the Fed chairman was very unlikely to provide guidance on Fed monetary policy, at a speech in Moscow. It was much more likely that he was merely trying to set out guidelines, for his USSR audience, on the limits of a central banks ability to control the smooth running of an economy.

Nevertheless it was pointed out how easy it is to wipe out the effects of billions of dollars worth of intervention with a few ill chosen words.

At the London close the dollar had advanced to DM1.9160 from DM1.8980; to Y144.75 from Y143.95; to SFr1.6775 from SFr1.6570; and to FFr6.4875 from FFr6.4275. On Bank of England figures the dollar's index rose to 71.3 from 70.5.

It was suggested that Mr Nigel Lawson, the UK Chancellor, would do well to take a lesson from the reaction to Mr Greenspan's speech, when he speaks to the Conservative Party Conference today.

Recent press comment has put pressure on the Government to commit sterling to early entry of the full exchange rate mechanism of the European Monetary System, or to adopt a tighter monetarist stance.

The City does not expect Mr Lawson to disclose any new measures today however, but thinks he is more likely to announce a change of policy at the Mansion House speech next week.

In the meantime sterling is likely to remain nervous and under pressure. Technical support is seen at DM2.95, but there is also resistance at DM2.9750. At the close the pound had climbed to DM2.9600 from DM2.9550, but had fallen 1.85 cents to $1.5445. Sterling showed mixed changes against other currencies, rising to SFr2.5900 from SFr2.5825 and to FFr10.0200 from FFr10.0150, but falling to Y223.50 from Y224.25. The pound's index fell 0.1 to 88.9.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Oct.11	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.2083	+1.77	+1.15	±1.5424
Danish Krone	7.85212	8.02337	+2.18	+1.56	±1.6419
German D-Mark	2.05853	2.09899	-0.02	-0.64	±1.1019
French Franc	6.90403	6.96838	+0.93	+0.31	±1.3719
Dutch Guilder	2.31943	2.36377	+0.19	-0.43	±1.5019
Irish Punt	0.768411	0.772876	+0.59	-0.03	±1.6689
Italian Lira	1483.58	1504.42	+1.40	+1.29	±4.0815
Spanish Peseta	133.804	130.529	-2.45	-2.39	-

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Oct.11	Latest	Previous Close
£ Spot	1.5500-1.5510	1.5645-1.5655
1 month	0.68-0.67pm	0.69-0.63pm
3 months	2.03-2.00pm	2.38-2.33pm
12 months	7.30-7.20pm	8.40-8.20pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Oct.11	Previous
8.30 am	89.1	89.3
9.00 am	89.1	89.2
10.00 am	89.2	89.2
11.00 am	89.3	89.3
Noon	89.4	89.3
1.00 pm	89.2	89.3
2.00 pm	88.9	89.3
3.00 pm	88.9	89.3
4.00 pm	88.9	89.0

POUND SPOT- FORWARD AGAINST THE POUND

Oct.11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5375-1.5565	1.5440-1.5450	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 62.35-62.45. Six-month forward dollar 4.64-4.59cpm 12 Months 8.30-8.20pm

CURRENCY RATES

Oct.11	Bank rate %	Special Drawing Rights	European Currency Unit
[illegible]			

§ Sterling quoted in terms of SDR and ECU per £. † European Commission Calculations. * All SDR rates are for Oct.10

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Oct.11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5375-1.5565	1.5440-1.5450	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 40.35-40.45.

CURRENCY MOVEMENTS

Oct.11	Bank of England Index	Morgan** Guaranty Changes %
Sterling	88.9	-21.9
[illegible]		

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for Oct.10

OTHER CURRENCIES

Oct.11	£	$
[illegible]		
S. Af (Fn)	5.8870-6.0015	3.8240-3.8985
Taiwan	39.25-39.35	25.50-25.55
U.A.E.	5.6656-5.6695	3.6720-3.6730

*Selling rate

EURO-CURRENCY INTEREST RATES

Oct.11	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]						

Long term Eurodollars: two years 8¾-8⅝ per cent; three years 8¾-8⅝ per cent; four years 8½-8⅜ per cent; five years 8½-8⅜ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Oct.11	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]										
B Fr.	1.609	2.486	4.763	359.6	16.12	4.16	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100%

LIFFE US TREASURY BOND FUTURES OPTIONS $100,000 64ths of 100%

LIFFE BUND FUTURES OPTIONS DM250,000 points of 100%

LIFFE £/$ OPTIONS £25,000 (cents per £1)

LIFFE EURODOLLAR OPTIONS $1m points of 100%

LIFFE SHORT STERLING OPTIONS £500,000 points of 100%

[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

U.S. TREASURY BILLS (IMM) $1m points of 100%

SWISS FRANC (IMM) SFr 125,000 $ per SFr

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

JAPANESE YEN (IMM) Y12.5m $ per Y100

DEUTSCHE MARK (IMM) DM125,000 $ per DM

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

STANDARD & POORS 500 INDEX $500 times index

[illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

7-10 YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

US TREASURY BONDS 8% $100,000 32nds of 100%

6% NOTIONAL GERMAN GOVT. BOND DM250,000 100ths of 100%

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

THREE MONTH STERLING £500,000 points of 100%

THREE MONTH EURODOLLAR $1m points of 100%

THREE MONTH EUROMARK DM 1m points of 100%

FT-SE 100 INDEX £25 per full index point

POUND-$ (FOREIGN EXCHANGE)

IMM-STERLING $ per £

[illegible]

EUROPEAN OPTIONS EXCHANGE

Series		Nov. 89 Vol	Nov. 89 Last	Feb. 90 Vol	Feb. 90 Last	May 90 Vol	May 90 Last	Stock
[illegible]								

TOTAL VOLUME IN CONTRACTS : 57,997

A=Ask B=Bid C=Call P=Put

MONEY MARKETS

London rates steady

SHORT-TERM rates held steady on the London money market yesterday as sterling nudged a little higher against the D-Mark on the foreign exchanges and the market waited for today's speech by the Chancellor of the Exchequer at the Conservative Party Conference.

Three-month sterling interbank finished at 15⅛-15⅛ per cent, compared with 15⅛-15 on Tuesday. Apart from the UK Government's attitude to interest rates and the value of the pound, at a time of mounting pressure on the currency, there were no other factors to influence the market.

UK clearing bank base lending rate
15 per cent
from October 5

The Bank of England initially forecast a credit shortage of £350m, but revised this to a shortage of £450m at noon. Total help of £355m was provided. Before lunch the authorities bought £195m bills outright, by way of £10m Treasury bills in band 1 at 14⅞ per cent; £2m local authority bills in band 2 at 14¾ per cent; and £183m bank bills in band 2 at 14$\frac{27}{32}$ per cent.

In the afternoon another £150m bank bills were purchased, in band 2 at 14$\frac{27}{32}$ per cent. Late assistance of around £10m was also provided.

In Frankfurt credit conditions remained tight, with call money at 7.95 per cent, trading close to the Bundesbank's Lombard emergency financing rate of 8 per cent. This was in spite of the central bank's injection of a net DM6.6bn into the banking system at this week's securities repurchase agreement tender.

The Bundesbank accepted bids of DM25.8bn, for a 28-day pact, at a fixed rate of 7.3 per cent. This offset an expiring pact of DM19.2bn. Although the allocation looked relatively generous, dealers said it was only in line with market requirements.

The extra funds will be needed to to pay over DM3bn this week for a Federal Government bond issue, and banks must also repay some Lombard borrowings, as well as maintaining reserve holdings at the Bundesbank.

In Brussels the Belgian National Bank raised interest rates and increased liquidity slightly at its weekly auction of 14-day securities repurchase agreements. The central bank allocated at 9 per cent all BFr15.225bn bid at a repurchase pact, to replace an earlier agreement of BFr12.85bn at a rate of 8⅜ per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct.11) 3 months US dollars bid	offer	6 months US Dollars bid	offer
[illegible]			

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime) — Treasury Bills and Bonds

Prime rate	10½	One month	[illegible]
Broker loan rate	10	Two month	[illegible]
Fed.funds	8¾	Three month	[illegible]
Fed.funds at intervention	[illegible]	Six month	[illegible]

Oct.11	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]					
Paris	[illegible]					
Zurich	[illegible]					
Amsterdam	[illegible]					
Tokyo	[illegible]					
Milan	[illegible]					
Brussels	[illegible]					
Dublin	[illegible]					

LONDON MONEY RATES

Oct.11	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	[illegible]					
Interbank Bid	[illegible]					
Sterling CDs	[illegible]					
Local Authority Deps.	[illegible]					
Local Authority Bonds	[illegible]					
Discount Mkt Deps	[illegible]					
Company Deposits	[illegible]					
Finance House Deposits	[illegible]					
Treasury Bills (Buy)	[illegible]					
Bank Bills (Buy)	[illegible]					
Fine Trade Bills (Buy)	[illegible]					
Dollar CDs	[illegible]					
SDR Linked Dep Offer	[illegible]					
SDR Linked Dep Bid	[illegible]					
ECU Linked Dep Offer	[illegible]					
ECU Linked Dep Bid	[illegible]					

[illegible]

BASE LENDING RATES

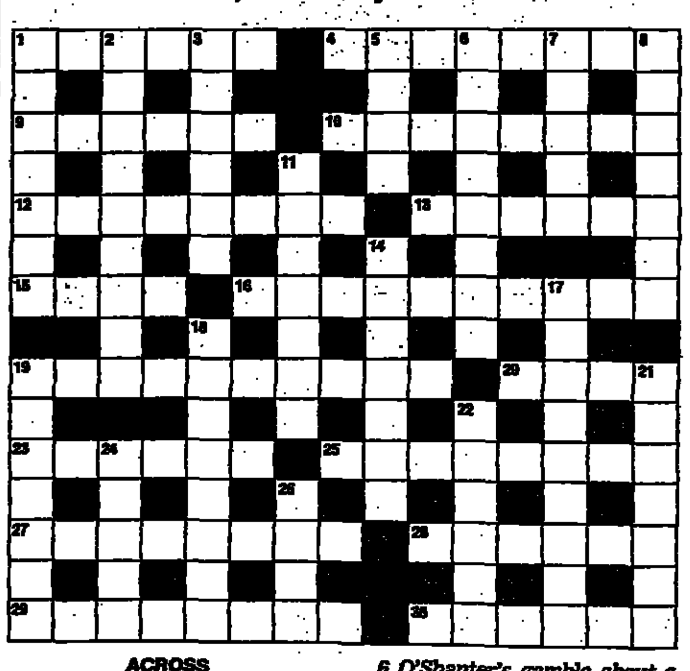
[illegible]

● Members of British Merchant Banking & Securities Houses Association. * Deposit rate 5.5% ...

JOTTER PAD

CROSSWORD

No.7,061 Set by FRESCA



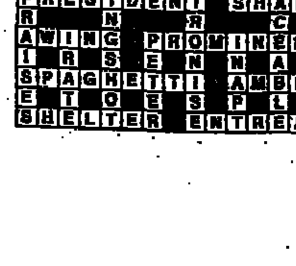
ACROSS

1 Players awarded gold star (6)
4 Heralds run out after wine on Sunday (8)
9 Song and dance display (6)
10 Sword results in one German with inside wound (8)
12 Go easy about cutting heads from narcissi and salvia for posies (8)
13 Pole leaves Lancashire town – quickly! (6)
15 Sightseeing trip to a place of archaeological interest (4)
16 Stood in lab unravelling evidence of violence? (10)
19 Pit employing trendy Scot from Africa? (10)
20 Strike-breaker's crust (4)
23 Complaint about students initially upheld by close relative of 1 across (6)
25 Bed large enough for seat of government (8)
27 Piece of verse set to music on royal plane? (8)
28 Piece of verse set to music in Pickwick Papers? (6)
29 Something afoot in Alaska? (8)
30 Broadcast includes piano encore (6)

DOWN

1 It can be shuffled (7)
2 Plain bit of southern England (9)
3 House of fruit? (6)
5 Formerly a concertante piece (4)
6 O'Shanter's gamble about a shrub (8)
7 Records of ambitious Etonians on the way up (5)
8 Schoolmaster look fashionable – it's beefy! (7)
11 On bike covering weather system? (7)
14 Party's bet on duchess (7)
17 Port and lager's different without Charlie! (9)
18 Part of Spain or Austria disrupted by society (8)
19 A piano sounds bell-like and has charm (7)
21 Ale-producer, lexicographer and youth leader (7)
22 Design it expressly to show such fire! (6)
24 "Left by a mythical vessel" – from Xerxes by Handel? (5)
26 Public expression of feeling in which fiend loses way (4)

Solution to Puzzle No.7,060



WORLD STOCK MARKETS

AUSTRIA, BELGIUM/LUXEMBOURG, DENMARK, FINLAND, FRANCE, FRANCE (continued), GERMANY, GERMANY (continued), ITALY, ITALY (continued), NETHERLANDS, NORWAY, SPAIN, SWEDEN, SWITZERLAND, SOUTH AFRICA, AUSTRALIA, AUSTRALIA (continued), HONG KONG, SINGAPORE, JAPAN

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible] Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. § S. Africa prices unavailable Oct.11.

CANADA

TORONTO
2pm prices October 11

Quotations in cents unless marked $.

[illegible]

Sales	Stock	High	Low	Close	Chng
3800	Cascades	$7	6⅞	6⅞	
1200	Celanese	$29⅞	29⅞	29⅞	+ ⅛
2012	Cen Capital	$12¼	12	12	− ¼
109100	CenCap A	$10⅛	8⅞	10⅛	
17500	CentFd A	$5⅝	6½	5½	
7500	C Guar Trc	$10⅝	10½	10⅝	
3000	Cheran	100	97	97	− 3
2000	Chieftan	$20½	20½	20½	− ¼
18312	Hemlo	$15⅝	15⅜	15⅜	
7100	Hollingr	$12⅝	12⅝	12⅝	− ⅛
52700	Horsham f	$10⅝	10½	10½	− ⅛
253	H Bay Mn s	$9⅛	9⅛	9⅛	− ⅛
6472	H Bay Co	$34⅞	34⅝	34¾	
27110	Imasco L	$38⅛	38	38⅛	+ ⅛
61658	Imp Oil A	$63⅝	63⅛	63⅛	− ⅛
204400	Inco	$38⅞	38⅜	38½	−1⅜
11291	Poco Pet	$9⅛	9	9⅛	+ ⅛
42050	Powr Cor f	$16⅛	15⅞	15⅞	− ⅛
6300	Powr Fin	$18¾	18½	18½	− ¼
101100	Provigo	$10	9¾	9⅞	
1600	Que Tel	$15½	15½	15½	
25800	Quebcor A	$17⅝	17½	17½	− ⅛
43500	Ranger	$7½	7⅜	7⅜	− ⅛
8600	Rayrock f	$8¾	8½	8½	− ⅛
8865	Westmin	$9⅜	9¼	9¼	
5450	Weston	$44½	44	44	
1110	Woodwd A	250	235	235	− 20
213650	Xerox Can	$20⅞	20⅛	20⅛	+2⅛

f−No voting rights or restricted voting rights.

INDICES

NEW YORK DOW JONES	Oct 10	Oct 9	Oct 6	Oct 5	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2785.33	2791.41	2785.52	2773.56	2791.41 2 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	93.01	92.62	92.59	92.51	94.15 (2/8)	87.35 (23/3)	—	—
Transport	1505.87	1518.49	1504.62	1498.76	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	219.50	219.13	218.69	218.37	221.64 (8/8)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2809.08 (2804.52) Low 2766.53 (2766.34)

STANDARD AND POOR'S	Oct 10	Oct 9	Oct 6	Oct 5	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	359.13	359.80	358.76	356.97	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	409.73	410.49	409.22	406.98	410.49 (9/10)	318.66 (3/11)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	35.14	35.24	35.16	35.09	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	199.00	199.34	198.94	198.05	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	397.03	396.52	395.93	394.43	397.03 (10/10)	305.24 (3/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	484.14	485.73	483.64	480.66	485.73 (9/10)	378.56 (3/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Oct 6	Sep 29	Sep 22	year ago (approx.)
Dow Industrial Div. Yield	3.62	3.74	3.75	3.60

	Oct 4	Sep 27	Sep 20	year ago (approx.)
S & P Industrial div. yield	2.82	2.90	2.87	3.19
S & P Indl. P/E ratio	14.90	14.42	14.49	13.03

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Burling Res	1,723,400	52⅞	+ 1½
AMR	1,699,800	101⅜	− 3⅜
AT&T	1,653,500	43	− ⅛
Paramount	1,468,200	63⅝	+ ⅞
Exxon	1,450,300	45⅜	+ ¼
Compaq	1,339,300	102¼	− 2⅜
Chevron	1,300,800	65¾	+ ⅜
Warner Comms	1,287,900	67¼	+ ⅝
Bristol Myers	1,278,700	54¾	+ ½
USAir Group	1,254,300	49⅛	− 3¼

TRADING ACTIVITY

† Volume Millions	Oct 10	Oct 9	Oct 6
New York	147.560	86.810	172.520
Amex	12.665	8.006	15.534
NASDAQ	136.962	84.270	155.993
Issues Traded	1,960	1,895	1,950
Rises	641	697	767
Falls	829	644	656
Unchanged	490	554	527
New Highs	115	88	150
New Lows	31	19	24

CANADA TORONTO	Oct 10	Oct 9	Oct 6	Oct 5	1989 HIGH	1989 LOW
Metals & Minerals	3727.9	(c)	3748.9	3781.6	3919.2 (1/9)	3207.5 (3/1)
Composite	4025.4	(c)	4037.8	4023.1	4037.8 (6/10)	3350.5 (4/1)
MONTREAL Portfolio	2069.68	(c)	2063.26	2059.55	2069.68(10/10)	1677.48 (3/1)

Base values of all Indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Oct. 11	Oct. 10	Oct. 9	Oct. 6	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1747.5	1755.7	1773.2	1772.9	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	849.3	854.0	862.1	863.2	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	515.09	514.39	510.10	505.66	515.09 (11/10)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6800.63	6771.96	6710.06	6700.32	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	338.63	339.94	338.59	335.11	356.65 (12/7)	275.49 (27/2)
FINLAND						
Unitas General (1975)	696.6	690.2	680.8	677.6	815.8 (18/4)	674.8 (27/9)
FRANCE						
CAC General (31/12/82)	561.6	559.9	560.2	555.0	561.6 (11/10)	417.9 (4/1)
Ind. Tendance(30/12/88)	127.5	128.1	127.8	127.1	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	678.61	690.91	687.25	684.38	690.91 (10/10)	535.78 (27/2)
Commerzbank (1/12/53)	2020.0	2056.8	2050.3	2044.4	2056.8 (10/10)	1595.7 (27/2)
DAX (30/12/87)	1604.05	1636.41	1639.55	1624.86	1657.61 (8/9)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2807.78	2844.04	(c)	2826.21	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1763.77	1772.92	1786.43	1778.36	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	695.73	691.39	693.08	690.22	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	35240.07	(c)	35376.35	35209.35	35689.98 (28/9)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2650.51	(c)	2673.56	2659.38	2703.58 (2/10)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	268.0	270.5	269.8	270.1	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	206.1	208.0	207.5	207.7	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	671.60	679.11	682.08	686.62	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	(u)	1236.42	1242.89	1216.45	1242.89 (9/10)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1428.98	1420.91	1420.18	1413.15	1428.98 (11/10)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	(u)	(c)	(c)	1557.04	1710.0 (27/9)	1291.0 (15/2)
JSE Industrial (28/9/78)	(u)	(c)	(c)	2692.04	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	928.06	921.77	(c)	922.85	1007.80 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	322.76	322.32	323.03	323.20	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4437.28	4360.3	4378.4	4372.0	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	807.8	813.4	813.3	811.0	829.1 (6/9)	613.1 (3/1)
TAIWAN**						
Weighted Price (30/6/66)	10287.08	(c)	9966.58	9545.85	10773.11 (25/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	(u)	693.62	690.78	688.56	724.93 (13/9)	386.73 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	540.6	543.9	543.6	551.2 (3/8)	487.6 (13/6)

**Saturday Oct. 7: Taiwan Weighted Price: 9871.86. Korea Comp Ex. 922.67.
‡ Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Wednesday October 11 1989

	Stocks Traded	Closing Prices	Change on day
Toyota	37.4m	2,850	+240
Canon	30.3m	2,010	+80
Sharp	21.7m	1,530	+80
Bridgestone	14.9m	1,960	+50
Matsushita	14.8m	2,490	+90
Nippon Steel	12.5m	708	-9
Amada	11.9m	2,180	-20
Toshiba	11.0m	1,170	0
Fuji Film	10.9m	5,500	-50
Sony	9.5m	9,390	+10

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

3pm prices October 11

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A–A–A –								
37⅞	21⅞	AAR	.44	1.2	22	37	36½	36⅛	36⅛	– ⅛
9⅞	8⅞	ACM n	1.01	11.		78	9⅛	9	9⅛	– ⅛
11⅝	10¼	ACMIn	1.26a	11.		290	11½	11⅜	11½	
10⅝	8	ACM M	n1.01	11.		115	9	8⅞	8⅞	
11½	10	ACM Sc	1.26	11.		346	11¼	11⅛	11¼	+ ⅛
9⅝	8⅞	ACMSp	1.01	11.		326	9	8⅞	9	
18	11½	AL Lab	.12	.8	17	65	16⅛	16	16	– ⅛
4⅛	3⅛	AMCA	.12e	3.3	24	66	3⅝	3⅝	3⅝	
6⅝	4½	AM Intl			11	190	5½	5⅜	5⅜	– ⅛
23½	20⅝	AM In pf	2	8.9		12	22⅝	22½	22½	– ¼
107¼	48½	AMR			11	16097	98⅞	95½	96¾	–2⅝
27	25	ANR pf	2.67	10.		2	26⅛	26⅛	26⅛	+ ¼
7⅛	3⅝	ARX				62	4⅛	4	4	
48⅞	37¼	ASA	3a	6.7		166	44⅝	44⅛	44½	+ ⅛
30¼	15¼	AVX	.24	.8	13	x665	29⅝	29½	29½	+ ⅛
69½	44⅛	AbtLab	1.40	2.1	18	1678	68¼	67¼	67⅜	– ¾
16¼	13¾	AbitiBl g	1			6	14⅜	14⅜	14⅜	
13	7½	AcmeC	.40	3.7		23	10⅞	10⅝	10⅞	+ ⅛
9⅞	5⅞	AcmeE	.32	3.6	11	5	9⅛	9	9⅛	+ ⅛
38½	20¼	Acuson			27	114	38⅛	37⅝	37⅞	– ⅝
17	14¾	AdaEx	1.82e	11.		65	16⅞	16¾	16¾	– ⅛
12⅝	8½	Adobe				58	12½	12⅜	12½	
21⅝	19⅞	Adob pf	2.40	11.		1	21¼	21¼	21¼	
10½	7⅛	AMD				2498	8⅞	8⅝	8⅞	
35	29¾	AMD pf	3	9.7		17	31	31	31	
10⅛	6½	Adwest	.12	1.4	15	8	8⅝	8½	8½	
60⅛	46	AetnLf	2.76	4.6	9	732	60¼	60⅛	60¼	+ ⅛
14	12⅜	AllPb				2953	13¾	13⅜	13⅜	– ⅛
25	15⅛	Ahmans	.88	3.7	12	1661	24⅛	23⅞	23⅞	– ⅛
4¼	2⅞	Aileen				53	3	3	3	– ⅛
49¼	37⅜	AirPrd	1.32	2.8	12	432	47⅛	46½	47	– ⅛
39⅝	17⅝	AirbFrt	.60	1.6	25	134	39⅛	38¼	38⅝	– ⅝
25⅛	14⅛	Airgas			14	38	23⅝	23⅛	23⅝	
20⅞	18⅞	Airlease	2.40	12.	9	21	20½	20⅛	20⅛	

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
33	23⅜	XTRA pf1.94		7.9		2	24½	24½	24½	+ ⅝
4¼	2	Zapata				406	2⅜	2⅜	2⅜	
15½	9½	Zemex	.40	4.1		2	9⅞	9⅞	9⅞	+ ⅛
22⅞	14	ZenithE				1739	15⅝	15⅛	15⅛	
10⅝	8	Zenlac	1.25	16.		228	8⅛	8	8	− ⅛
2½	⅞	vjZenLb				1580	7-16	⅜	⅜	−1-16
21½	15	ZenNtl	.24	4.4	9	41	19⅛	19⅛	19⅛	
18½	12⅛	Zero s	.40	2.3	16	231	17⅞	17⅛	17⅛	− ⅛
44⅛	25⅛	Zurnis	.66	1.6	20	91	42	41½	41½	− ½
12⅞	10	Zweig	1.12e	9.4		495	12⅛	11⅞	11⅞	− ⅛
10⅛	8⅜	ZweigTl	.98	10.		1496	9½	9⅜	9⅜	− ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices October 11

OVER-THE-COUNTER

Nasdaq national market, 3pm prices October 11

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
Wolohn	.28	10	147	20½	20	20	
WhEx b			482	8⅞	8⅛	8⅝	− ⅛
Worthg	.56	17	434	24¼	24	24	
Wyman	.80	178	224	18	17½	17⅞	+ ⅛
−X−Y−Z−							
XL Dta s		17	1565	23½	21¾	22	+ ⅛
XOMA			1516	22½	21½	22¼	
XIcor		10	666	5⅛	4⅞	4⅞	− ⅛
YanEnS	.28e		84	22	21½	22	
YelowF	.76	10	281	27½	27¼	27½	
YorkRe			17	6⅝	6⅜	6⅝	
ZionUt	1.44		11	30⅞	30⅜	30⅞	− ⅛

AMERICA

Profit-taking sets in as Fed fails to ease policy

Wall Street

THE FIRST serious bout of profit-taking for at least two weeks hit the equity market yesterday, *writes Janet Bush in New York.*

At 2 pm, the Dow Jones Industrial Average was quoted 24.06 points lower at 2,761.27. Volume was moderately active, with 110m shares traded by midsession. Other indices were also sharply lower.

The key to the moderate selling on Tuesday and sharp sell-off yesterday was a perception that the US Federal Reserve might be digging its heels in on interest rates.

After rate rises throughout Europe last Thursday and apparently weak US employment figures on Friday, there were high expectations that the Fed would ease monetary policy.

So far, however, there has been no sign that the Fed is easing. It has clearly omitted to signal an easing through its money market operations, and extensively reported comments by Mr Alan Greenspan, Fed chairman, on a visit to Moscow were taken by the financial markets to mean that it did not want to reduce interest rates.

Mr Greenspan suggested that attempts at short-term currency stabilisation were counterproductive in the long term. This was taken to mean that the chairman's views did not coincide with the recent Group of Seven statement that the dollar's current high level did not reflect economic fundamentals.

The dollar soared on the belief that the Fed would not ease monetary policy and was not committed to driving down the value of US currency.

The dollar remained well bid in spite of news that the Bank of Japan had raised the discount rate by ½ point. The reason cited by foreign exchange dealers for the dollar's strength was that there had been expectations of a full point rise in the Japanese discount rate.

Confidence in equities was also undermined by the latest troubles on the takeover front. Given that takeovers have provided this market with so much momentum this year, any suggestion that financing difficulties and problems in the junk bond market may stem the flow of new deals is a worry.

The latest concern surrounds the collapse of the agreement of Qintex of Australia to acquire MGM/UA Communications, as well as plans in Congress for legislation that would hamper the bid by Mr Donald Trump for AMR, parent company of American Airlines.

MGM/UA, the film and television studio, fell $⅞ to $20⅝ while AMR dropped $3⅞ to $99⅞.

Among other airline issues, UAL fell $1⅞ to $282⅞ and Delta dropped $3⅞ to $77⅞. Weakness in airlines depressed the Dow Jones Transportation Index, which was quoted 18.49 points lower at midsession at 1,487.38.

USX fell $⅞ to $37⅞ in response to the company's adoption of a shareholder rights plan which would go into effect if any party acquired a stake of 15 per cent or more in the company. Mr Carl Icahn raised his stake in USX to 13.06 per cent last week from 11.4 per cent.

Ramada dropped $2⅞ to $11 after the company said that it would not go ahead with a planned $400m debt offering for Aztar, the company created under a restructuring to run its casino operations, because of the depressed state of the junk bond market.

In over-the-counter trading, McGill Manufacturing leapt $14⅞ to $72⅞ on news of a $72-a-share tender offer from the US subsidiary of Sweden's SKF.

Canada

THE WEAKNESS in New York depressed Toronto share prices at midsession in light trading.

The composite index lost 15.9 to 4,009.1 on volume of 12.9m shares. Declines led gains by 279 to 208.

Connaught BioSciences was unchanged at C$35⅞ in spite of a University of Toronto lawsuit scheduled to begin tomorrow which could scuttle the sale of the company to Institut Mérieux of France. The French company has bid C$37 a share for the company.

SOUTH AFRICA

THE WEAK bullion price sent Johannesburg gold stocks lower in the market's first trading session of the week. Southvaal lost R8 to R134 and Driefontein fell R2.25 to R40.

September brings colour to energetic Paris bourse

Jacqueline Moore sees divergent national trends in turnover terms as autumn comes to Europe

THE FIRST hint of autumn brought mixed results for European turnover in September; while some markets had a colourful, lively month, others began to fade after a busy summer.

The most energetic market by far was France, where takeovers and stake-building – and the speculation preceding them – boosted turnover by an estimated 43 per cent above August, which was itself a busy month for the French bourse. The figure of FFr145.8bn would be its highest monthly total of the year – well above the previous high of FFr124bn recorded in January, and almost twice as heavy as that of September, 1988.

The hectic activity reflected a strong month for Paris, as the CAC General index hit all-time highs with almost monotonous regularity. The insurance sector generated much of the excitement at the start of September, with the saga of the bid by Suez for Compagnie Industrielle and Groupe Victoire reaching its conclusion. Other speculative issues intermittently seizing the limelight included holding company Navigation Mixte, stores group Bon Marché and sugar producer Béghin-Say.

Peugeot also helped to pump up turnover levels, attracting active investment at the start of the month, before strikes at its car plants led to heavy selling in mid-September.

Foreigners were responsible for much of the volume, with the Japanese in particular buying large French stocks, which they regarded as fairly cheap.

The other European star last month was Spain; volume surged 28 per cent to its highest level of the year – more than double the figure for the same month in 1988.

The bolsa began September in confident style, with the general index hitting a year's high one day after the announcement of Spanish general elections. A few days later, demand for electrical utilities propelled the index to record highs in busy turnover. For the rest of the month, rallies alternated with bouts of profit-taking – all of which swelled turnover – and interest focused on utilities, banks and construction issues.

Activity did not increase throughout the Continent, however: turnover improved, but only slightly, in two other markets. Belgium and the Netherlands both made gains of less than 4 per cent, but these small rises followed very strong performances in August.

Elsewhere, turnover declined, ranging from a fall of 9.5 per cent in West Germany to a 27 per cent reduction in Switzerland. Germany, in spite of this decline, held up reasonably well after its active summer and its turnover figure was twice that of the same month in 1988. In contrast, Swiss volume was slightly below that of September last year as the market kept a worried eye on every twitch of the dollar or of Wall Street and every hint of higher interest rates.

Italian turnover shrank by 19.5 per cent, but this decline was tiny compared with the surge of 94 per cent recorded between the end of May and the end of August. The market was in fairly lively mood for the first half of the month, with the financial scandal at Banca Nazionale del Lavoro's Atlanta branch and the announcement of the issue price for Enimont adding spice. Consolidation then set in, however, broken only by an occasional flurry of interest related to company results.

EUROPEAN EQUITIES TURNOVER
Monthly total in local currencies (bn)

Bourse	Sept '89	Aug '89	July '89	June '89	May '89
Belgium	85.2	82.0	60.0	72.0	62.4
France	145.8	102.0	78.0	98.0	72.0
Germany	104.5	115.5	[illegible]	132.0	77.9
Italy	21,800.0	27,080.0	24,564.0	23,090.0	14,080.0
Netherlands	16.6	16.0	14.1	17.1	14.4
Spain	742.9	578.8	400.4	522.6	616.5
Switzerland	13.8	19.0	18.8	18.5	15.8

Volumes represent purchases and sales. Swiss and Belgian data estimated. Italian data adjusted to include off-market trading. Some figures may be revised. Source: County NatWest WoodMac

EUROPE

Excited rumour vies with the mighty dollar

WHILE the dollar's sharp rise and prospects for US interest rates preoccupied many bourses, Paris was riding on a speculative roller-coaster, *writes Our Markets Staff.*

PARIS got carried away with excitement over a possible bid for the Paribas banking group and then was severely deflated when a mass of rumours failed to take any sensible shape.

The OMF 50 index had an extraordinarily volatile day, jumping from Tuesday's close of 539.36 to a high of 545.85, only to plummet again to finish at 529.27, down 10.09 or 1.9 per cent on the day. "It was a classic situation of a market getting out of hand," said one broker.

Paribas was suspended several times because of excessive buy orders, surging to a high of FFr654 before coming almost all the way down again to end FFr9 up on the day at FFr589. The persistent rumour was that Navigation Mixte, the diversified holding group, was stake-building defensively or attempting a bid, possibly with the help of allies.

Stake-building was one thing, but the bubble burst when the takeover story began to look unlikely. "To say Mixte is going to make a bid for Paribas is cloud cuckoo land," was one comment.

Some of the recent heavy buying in Paribas also appears to be friendly, with its core shareholders increasing their stakes. Yesterday about 1.5 per cent of the equity capital changed hands in Paris, and a significant amount was thought to have been traded in London. (Total volume in Paris was estimated at FFr3bn.) Paribas has been seen as undervalued, but Tuesday's 8.8 per cent jump, followed by the rise to FFr654 yesterday, may have changed all that.

Mixte itself jumped FFr104, or 7 per cent, to FFr1,599 and some analysts thought it more likely that Paribas was making a bid for control of Mixte, having raised its stake officially to 7 per cent and probably closer to 10 per cent.

Suez, the rival banking group to Paribas, was also heavily traded and fell FFr7.60 to FFr406.50 after talk on Tuesday of a joint assault on Banque Indosuez by Deutsche Bank and France's BNP.

FRANKFURT took profits after its recent string of rises. Weakened by the 3 pfg rise in the dollar and gains in domestic bond yields, its indices showed a progressive fall as the FAZ shed 12.30 to 678.61 at mid-session, and the DAX closed the day at 1,604.05, down 32.36.

Volume fell from DM6.2bn to DM4.6bn. Sentiment also suffered from new interest rate fears, after the rise in the Japanese discount rate, and blue chips were led down by Deutsche Bank, down DM17.50 at DM691.50, and Daimler, off DM20.50 at DM769.50 – partly on reports that the MBB acquisition might be delayed by regional government intervention.

Long term bulls of the market were not dismayed. They noted that, while the dollar was set at DM1.9146 yesterday against DM1.8858 on Tuesday, it had been over DM2 during an earlier fit of nerves.

Asko, the retailer, recovered DM33 to DM888 as disappointment on its exclusion from cooperation talks with the Dutch retailer, Ahold, began to lose its sting.

AMSTERDAM dropped on disappointment that US interest rates were unlikely to fall in the near future, and the CBS tendency index shed 1.5 to 195.2 in moderate turnover worth Fl 802m.

Ahold lost Fl 1.60 to Fl 134.30 on speculation that Asko of West Germany would now sell its 15 per cent stake. Ahold is seeking a new West German partner.

MILAN demonstrated its individuality, in calmer mood after the Ifi/Mediobanca share stake deal was explained as a move to help the Agnelli group finance the acquisition of the Galbani food group last July. Shares extended early gains, and the Comit index rose 4.34 to 695.73 in moderate trading.

Price rises were also encouraged as positions were adjusted ahead of today's deadline for October options contracts. Yesterday's closing prices will provide the basis for investors to take up share options, or discard them.

Ifi preferred shares recovered L500 of Tuesday's losses to close at L25,800. Meanwhile, banking stocks put in a strong performance as the market waited for news from the scandal-rocked Banca Nazionale del Lavoro (BNL). Banca Commerciale Italiana rose to L45 to L5,330 and Mediobanca L70 to L28,010.

BRUSSELS buzzed with company news and speculation, and share prices rose in busy trading. The cash market index added 28.67 to 6,800.63, in spite of a rise in three-month Treasury bill interest rates.

Financial stocks were in the vanguard, with Générale de Banque gaining BFr200, or 3.3 per cent, to BFr6,200 after news that Société Générale de Belgique, up BFr15 at BFr3,625, had raised its stake to almost 20 per cent from about 13 per cent.

Insurance issue Royale Belge shot up BFr670, or 10 per cent, to BFr7,370.

STOCKHOLM was buoyed by persistent Volvo/Renault merger rumours. Volvo's free B shares rose SKr19 to SKr515 and the Affärsvärlden General index rose 6.8 to 1,307.5 in active trading.

Speculation of a huge cross-border tie-up seemed far-fetched, said one analyst, but there could be some cooperation planned in the trucks sector, especially as both companies are interested in Enasa, the Spanish truck maker which is to be privatised.

Astra, the pharmaceuticals company, saw its free B shares climb SKr15 to SKr335 after its anti-ulcer drug Losec won approval for use in West Germany, the main drugs market in Europe.

ZURICH closed lower across the board as worries about rising short-term interest rates depressed the market, dealers said. Volume was low, banks were hard hit and the Crédit Suisse index fell 2.4 to 652.9 from 655.3.

ASIA PACIFIC

Interest rate rise sends Nikkei into decline

Tokyo

A RUSH of profit-taking hit the Japanese market when the Bank of Japan announced at noon that it was to raise its official discount rate, although shares ended above their lows, *writes Michiyo Nakamoto in Tokyo.*

Share prices recovered part of their early heavy losses through index-linked and arbitrage buying and the Nikkei average closed only 136.28 lower at 35,240.07 after plummeting 367.64 points just after the rate increase was announced.

Investors had been in glum mood from the start, as trading resumed after Tuesday's national holiday and as the yen continued to slip against the dollar. The day's low was just above the 35,000 level at 35,005.77 and the high was 35,399.04.

Turnover was slightly higher at 751m shares than the 709m traded on Monday. The Topix index of all listed shares lost 13.07 to 2,660.49. In London trading, the ISE/Nikkei 50 index was off 3.43 at 2,049.76.

The half-point increase in the official discount rate came as a surprise as the financial authorities had stressed that there was no need for Japan immediately to follow the Europeans in raising rates. Although investors had expected Japan to raise its rate eventually, few had expected the increase to be this soon.

"People were shocked," said one market expert. "This market has been cajoled into believing that there would be no rate hike soon."

However, the move was seen by many as simply correcting the gap between market rates and the official rate. The consensus was that, while the market could drift lower in the near term, the fact that the bad news was out could lead to strength in the longer term.

The downward correction could persist for some time because short-term interest rates remain high and the dollar is not expected to fall significantly in the near future.

The equity market saw a slight shift of interest from high-priced issues to blue chip laggards, such as Toyota and Canon, benefiting from the dollar's strength.

Toyota, which topped the volumes list with 37.4m shares traded, surged Y240 to Y2,850. The company is expected to raise its annual profits.

Canon rose Y60 to Y2,010. It was second on the volumes list with 30.3m shares traded. Investors bought Cannon, which is about 70 per cent dependent on exports, as a defensive issue because of the stronger dollar. Sharp, the leading maker of consumer electronics, followed in volume with 21.7m shares and gained Y60 to Y1,530.

Osaka turned sluggish as investors took profits on recent winners. The OSE average dropped 215.78 to 36,305.47.

Roundup

ASSORTED news items, such as Tokyo's interest rate increase, had their impact on the Pacific Basin yesterday; as usual, however, rumour was as important as fact in share price performance. Trading in Manila was suspended as a typhoon hit the Philippines.

HONG KONG took profits before the expected, after-hours announcement of its new, HK$127bn infrastructure plan. The Hang Seng index fell 36.26 to 2,807.78 after rises on five consecutive trading days.

Sentiment was disturbed by the Japanese interest rate move, and the rumour (subsequently quashed) that the local currency would be unpegged from the US dollar. Weekend hostility from Peking also stayed in the atmosphere.

Property was the weakest link, the sub-index falling 100 points to 4,713. This apart, the market was probably more healthy than it looked; an analyst in London noted heavy buying of the Hongkong Bank by international broking houses; the stock rose another 5 cents to HK$6.30.

SINGAPORE rose, in contrast, on the back of property stocks. The rumour of a S$17-a-share takeover bid for Singapore Land, up 50 cents at S$14.70, and further speculation about DBS Land after news of a S$169m property deal helped the Straits Times Industrial index up 8.07 to a post-crash high of 1,428.98.

AUSTRALIA seesawed before closing mostly lower as another sharp fall in News Corp overshadowed the market. The All Ordinaries index fell 8.2 to 1,747.5 in turnover of 138m shares worth A$200m, up from 102m and A$170m on Tuesday.

News Corp slumped 60 cents to A$15.30 on speculation that it would make a fresh bid for MGM/UA Communications of the US; the latter's merger agreement with Qintex Australia collapsed on Tuesday. News had already fallen 55 cents on Tuesday after Mr Rupert Murdoch issued a profits warning.

Qintex initially jumped on the news, climbing to 53 cents. But fears about the prospect of a legal battle drove the shares back to 44 cents, down 2 cents on the day – above last week's brief low of 40 cents, but far below the 1989 high of A$1.70.

Bond Corp bounced off Tuesday's 10-year low, jumping 6 cents to 31 cents, on turnover of 3.5m shares. Short-selling of the stock was suspended on Tuesday.

TAIWAN took its gains to four sessions in a row, the weighted index rising 320.50 to 10,287.08 in spite of an increase in daily price fluctuation limits to 7 per cent. Volume rose to 955m shares valued at NT$126.2bn from 856m and NT$111.5bn previously.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of stocks per grouping)	TUESDAY OCTOBER 10 1989: US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	MONDAY OCTOBER 9 1989: US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX: 1989 High	1989 Low	Year ago (approx)
Australia (85)	157.76	-1.7	150.12	134.91	-0.9	4.89	160.41	150.61	136.08	160.41	128.28	141.48
Austria (19)	172.22	+2.1	163.89	169.52	+2.5	1.44	168.63	158.34	165.43	172.22	92.64	89.54
Belgium (63)	143.07	+0.3	136.15	141.13	+0.9	3.92	142.66	133.95	139.84	144.47	125.58	124.12
Canada (122)	154.17	+0.0	146.70	130.95	-0.2	3.13	154.16	144.75	131.22	154.17	124.67	128.36
Denmark (36)	202.86	+0.4	193.06	203.43	+0.8	1.56	202.12	189.78	202.12	219.89	165.35	135.15
Finland (26)	126.36	+0.8	120.24	113.69	+0.8	2.43	125.39	117.73	112.97	159.16	123.12	113.00
France (126)	139.94	+0.3	133.17	141.09	+0.8	2.67	139.55	131.03	139.94	139.94	112.57	99.21
West Germany (97)	103.51	-0.3	98.50	102.03	+0.3	2.01	103.84	97.50	101.74	103.84	79.56	81.43
Hong Kong (48)	120.23	+0.8	114.41	120.50	+0.7	4.89	119.49	112.19	119.70	140.33	88.41	105.08
Ireland (17)	160.54	-1.2	152.77	161.11	-0.6	2.76	162.43	152.52	162.15	166.69	125.00	138.65
Italy (97)	91.29	-1.1	86.87	94.94	-0.3	2.41	92.28	86.65	95.25	96.73	74.97	77.75
Japan (455)	182.75	-0.9	173.91	165.29	+0.0	0.48	184.42	173.16	166.29	200.11	164.22	182.11
Malaysia (36)	208.37	-0.1	198.28	218.27	+0.0	2.45	208.50	195.77	216.37	208.50	143.36	134.84
Mexico (13)	322.59	+1.1	306.97	918.78	+1.2	0.56	319.19	299.70	908.06	322.59	153.32	152.03
Netherland (43)	131.43	-0.2	125.07	128.44	+0.3	4.13	131.72	123.68	128.08	131.72	110.63	105.17
New Zealand (19)	81.70	-1.0	77.74	74.03	-0.7	4.73	82.52	77.48	74.55	85.18	62.64	72.03
Norway (24)	181.02	-0.9	172.25	172.46	-0.4	1.50	182.66	171.50	173.23	196.39	139.92	115.57
Singapore (26)	168.71	+0.7	160.54	162.93	+0.7	1.93	167.54	157.31	161.87	170.62	124.57	118.16
South Africa (60)	157.13	+0.0	149.52	132.10	+0.0	4.34	157.13	147.53	132.10	160.24	115.35	109.72
Spain (43)	163.71	+1.1	155.78	149.26	-0.4	3.49	165.52	155.41	149.85	169.75	143.14	142.80
Sweden (35)	182.49	+0.4	173.66	175.60	+0.7	1.95	181.80	170.69	174.33	186.94	138.45	125.49
Switzerland (64)	91.29	-0.9	86.87	93.78	-0.2	2.01	92.16	86.53	94.01	94.16	67.81	79.38
United Kingdom (306)	141.56	-2.7	134.80	134.80	-1.4	4.49	145.58	136.69	136.69	158.41	133.28	131.76
USA (547)	145.99	-0.2	138.93	145.99	-0.2	3.15	146.29	137.36	146.29	146.29	112.13	113.49
Europe (995)	127.82	-1.3	121.63	124.19	-0.4	3.37	129.46	121.56	124.68	132.95	112.63	108.07
Nordic (121)	168.97	+0.3	160.79	158.54	+0.6	1.79	168.50	158.21	157.61	178.38	137.95	117.64
Pacific Basin (669)	178.40	-0.9	170.72	163.25	+0.0	0.73	181.02	169.97	163.26	194.72	160.44	169.94
Euro-Pacific (1665)	158.88	-1.0	151.19	147.58	-0.1	1.59	160.51	150.71	147.76	166.98	141.56	138.62
North America (669)	146.38	-0.2	139.29	145.04	-0.2	3.15	146.68	137.70	145.34	146.68	112.79	114.00
Europe Ex. UK (690)	118.15	-0.3	112.43	117.43	+0.3	2.63	118.51	111.28	117.11	118.51	96.30	93.25
Pacific Ex. Japan (214)	139.00	-0.8	132.27	125.01	-0.3	4.52	140.05	131.50	125.37	140.05	111.93	120.76
World Ex. US (1860)	158.80	-1.0	151.11	147.10	-0.1	1.67	160.36	150.57	147.31	166.35	141.49	137.82
World Ex. UK (2101)	154.27	-0.5	146.81	147.88	+0.0	1.95	155.10	145.63	147.90	159.24	136.58	128.01
World Ex. So. Af. (2347)	153.10	-0.7	145.69	148.71	-0.2	2.15	154.21	144.80	148.95	155.92	136.67	128.44
World Ex. Japan (1952)	139.36	-0.6	132.62	136.82	-0.3	3.30	140.19	131.63	137.18	140.43	114.51	112.18
The World Index (2407)	153.12	-0.7	145.71	148.61	-0.2	2.16	154.23	144.81	148.84	155.89	136.69	128.33

Latest prices were unavailable for this edition. Markets closed October 10: Japan and South Africa.